THE MANITOBA BUDGET ADDRESS

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The Honourable Eugene Kostyra
Minister of Finance
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INTRODUCTION

Madam Speaker:

Today's Budget is the first I have had the privilege of presenting to the Assembly and to the people of Manitoba.

It is the fifth Budget which our New Democratic Government has presented since November, 1981. We are deeply honoured that earlier this year, the people of Manitoba chose to renew our mandate to build on the initiatives implemented in our first term.

I am sure all Members would want to join me in paying special tribute to my predecessor, the Honourable Vic Schroeder, who served as Finance Minister for the last four and one-half years. His efforts in standing up for our province since 1981, have helped secure the high quality of life, the confidence and hope for the future shared by Manitobans today.

At the heart of all our actions is a faith in the desire and willingness of Manitobans to work **together** to build a better future.

Manitobans -- men and women from every walk of life are proud of our province -- proud of our accomplishments -- proud of the fact our economic growth is among the strongest in the nation -- and they are confident about the future, eager to meet the challenges ahead.

During the recent election campaign, Manitobans made it clear they wanted good government, strong government -- government committed to working co-operatively with every member of our society. They wanted to build on our economic and social heritage and to focus continued attention and expanded resources on jobs and vital human services.

Manitobans endorsed our initiatives of the past four years, reflecting our philosophy and ongoing commitment that economic and social development do indeed go hand in hand.

From 1977 to 1981, Manitobans had first-hand experience with a Conservative government which chose to restrain social progress for economic growth and ended up sacrificing both. As the economy faltered and the Conservatives turned their backs on needed job creation, our young people left the province. And, that same government refused to lend a helping hand to our farmers, small business operators and homeowners beset with crippling interest rates.

In 1981, Manitobans rejected that approach and mandated our New Democratic Party with the task of rebuilding a province already sliding into the most serious recession since the 1930s. During the last four and one-half years, balanced emphasis on economic and social development -- on co-operation and working together -- began to pay off. Manitobans have witnessed the turnaround in our Province's economic performance from nation-lagging under the Conservatives to nation-leading under the NDP.

Manitobans recognize that our economic accomplishments -- reflected in jobs, investment, and sons and daughters coming home to our province -- only represent real progress if all Manitobans are assured a fair share in the rewards of our province's harvest.

Manitobans have confirmed their commitment to working together, to sharing the benefits, and to improving the overall quality of life in our province -- making Manitoba an even better and fairer place to live.

Last March 18th, Manitobans renewed our mandate and elected a government that shared their vision for the future.

All across the province, men and women have provided sound advice on how we should pursue our budgetary policies. During the election campaign and the weeks following, my colleagues and I had the opportunity to talk to thousands of

ordinary Manitobans from Minitonas to Beausejour and from Gardenton to Cross Lake. As the Finance Minister, I also met with Manitobans from a broad spectrum of economic and social interests. I would like to thank all those people. I look forward to further discussions as we address the fiscal and budgetary challenges of the coming years.

This Budget reflects their concerns and incorporates their ideas. It emphasizes integrated economic and social development, the respect and caring, the co-operative spirit and the promise of a better future, which Manitobans have a right to expect from their government.

It is a Budget which seeks to ensure:

- **sustained economic development to provide jobs, economic security and increased opportunities for women and men throughout the province. The crisis in agriculture and the future of family farms in our province is the most pressing economic concern.**

- **access for all to improved vital services, health care to keep us well and treat us when ill, education and training for young men and women and others seeking broadened knowledge and skills for a changing world, quality child care for working and especially single parents, and important income and program supports for seniors and others requiring these services.**

Manitoba's policies since 1981 have created jobs and job opportunities while preserving public services. These achievements have been accompanied with a modest reduction in our Province's debt as a share of all provincial debt in Canada.

Manitobans, like all Canadians, recognize that deficits add to ongoing public debt costs. They also know that some deficits do not show up in government balance sheets -- but rather in more jobless men and women, more poverty, more waiting lists for hospitals and more beds in hallways, and more injustice and inequality.

We are determined to face these concerns directly. We will sustain public services, economic development and job opportunities while containing and reducing deficits over the medium term.

Manitobans know that current deficits do not result from spending decisions alone. The current tax system, largely

controlled by Ottawa, contains many tax preferences which have a significant effect on provincial revenues. Federal decisions to reduce support to provinces, or to withdraw services which then must be picked up by provinces, also impact upon provincial finances.

Sustained scrutiny of spending plans to ensure that the tax dollar is spent wisely and prudently has been a continuing element of our fiscal strategy. Manitoba spends less per person than seven other provinces. Nonetheless, close examination of all programs and public services will continue. We are determined to become even more efficient and effective.

Manitobans should not have to tolerate unfair cutbacks in federal support. Nor should they have to tolerate program and service cutbacks to finance huge tax breaks for big business, the wealthy and privileged interests. That is why comprehensive tax reform is critical. Manitobans have told us we must stand up for Manitoba's interests in our relations with Ottawa, and demand fair support in direct contributions for health and higher education, for social services, for economic development and in all aspects of federal activity in our province.

SUSTAINED ECONOMIC AND SOCIAL PROGRESS

Over the last several years, Manitobans have seen a series of sharp and often painful adjustments in the world around them. The resource-development boom of the 1970s largely by-passed our province. However, the inflation, unemployment and high interest rates which accompanied it presented serious problems for the people of Manitoba.

Farmers were caught in a spiral of rising production costs and debt payments. Businesses were forced to trim expenses, postpone investments and lay off workers. Men and women, their own jobs less secure, watched as their children and friends left Manitoba to seek employment in other provinces. Homeownership was slipping beyond the grasp of ordinary Manitobans.

The people of Manitoba saw their province rapidly fall behind the national standard and witnessed erosion in their quality of life. They watched the Conservative administration of the day, preoccupied with short-term adjustments to the provincial balance sheet, remain passive and inactive in the face of this gathering crisis.

But in 1981, and now again, Manitobans have chosen a government prepared to act, to stand up for the people of our province, and to build on the strengths of our diverse economy. Manitobans have a government committed to working with them to shape our province into the vibrant society which they know is possible through the sharing of our creative energies.

Much has been accomplished over the past four years.

The people of our province -- men and women, as individuals and through their organizations -- businesses -- unions -- farms -- their Government -- have all worked hard in the face of massive disruption in the national and international economy. Together, we have turned the tide. We have raised Manitoba's performance above the national standard, and we have set our sights on the greater challenges and opportunities of the future.

I would like to highlight some of the achievements shared by the men and women of Manitoba over the past four years. Further information is provided in the Economic Review appended to this Budget.

Job Creation

Job creation has been the number one priority of our Government, and the number one success story in our province. Our policies of providing active support when the economy was in need, and fostering longer-term development as economic renewal has taken hold, have worked. Manitoba's job creation record is better than the national standard over the last five years. There are 27,000 more jobs in Manitoba than prior to the recession.

I am particularly pleased that improved job prospects for young people in Manitoba resulted in a substantial reduction of 4.1 percentage points in the youth unemployment rate over the course of 1985.

Although unemployment still remains unacceptably high, thousands of people have recognized the improvement in Manitoba and are choosing our province as the place to live, work and raise families. In the past four years, our population has grown at the fastest rate in decades.

Significantly, in 1984, our province recorded an actual reduction in the number of families living below the poverty level, while the incidence of poverty nationally, continued to escalate.

Approximately 150,000 workers, or 37% of the non-agricultural paid labour force in Manitoba belong to labour unions. The labour relations climate in Manitoba has long been characterized by a strong commitment on the part of both workers and employers to resolve differences through collective bargaining. The result has been fewer work stoppages -- in fact, the amount of time lost to strikes and lockouts in Manitoba relative to total employment has been less than one-sixth of the national average over the past four years.

Investment

Manitoba has an excellent investment record. Major investment in resource development, investment by both large and small businesses in new technologies and new production processes, investment in public sector infrastructure, investment in health, education and the job security of our young people...these are the vehicles through which the dreams and aspirations of today are transformed into reality.

Manitobans have long recognized that co-operative and joint efforts of the private and public sectors are essential to

developing the special strengths of our economy and to meeting the needs of our people. The Provincial Government provided an effective catalyst to private investment by stimulating the economy during the recession and emphasizing the longer-term development of our economic potential.

Growth in private sector investment in Manitoba, along with Ontario and Quebec, over the 1982 to 1986 period, leads the nation. The combined strength of private and public sector investment activity in our province means total investment growth in Manitoba is the strongest of any province.

In 1985, Manitoba achieved a seven-year high in housing construction, with 6,557 units started. This activity has once again put quality housing within reach for many Manitobans, while at the same time, creating significant employment opportunities for men and women.

Development of the Limestone Generating Station is now fully under way. Significant job opportunities have been provided for northerners and especially northern Native people. Right now, over one-third of people working on Limestone are of Native ancestry. The level of Manitoba business participation in hydro development, at 80%, is unprecedented. Construction of Limestone will provide an estimated 19,000 person-years of direct and indirect employment for Manitoba men and women.

Limestone was assured by the Northern States Power sale. But, we are not stopping there. Negotiations for export sales are continuing. We are on the verge of a decade of continuous hydro development for our province.

To maximize social and economic benefits of hydro development, legislation will be introduced establishing the Manitoba Energy Foundation. The Foundation will receive 50 percent of the profits from long-term hydro exports, profits estimated at $1.7 billion on the Northern States Power contract alone. The Foundation will invest in job creation, economic development and social development for future generations of Manitobans. The remaining profits will help Manitoba Hydro ensure that Manitobans continue to enjoy low electrical rates.

The North Portage Development in Winnipeg's downtown core demonstrates the positive results that can be achieved when governments and the private sector work in concert. In addition to significant employment during the construction phase, North Portage will create long-term jobs in new offices and shops in the private retail and commercial sector. North Portage is

transforming the urban environment and giving it a vitality that has not been evident for many decades.

Commercial and residential investment is increasing in many communities in Manitoba. In 1985, the value of building permits issued outside of Winnipeg increased 62% and rose to a level two and one-half times above that of the early 1980s. This means more jobs and job opportunities for men and women, and improved and lasting assets and community infrastructure for all Manitobans.

If Members Opposite want more confirmation of the economic successes achieved by the people of Manitoba, they may wish to consider the words of their own federal leader. At last November's First Ministers' Conference, Prime Minister Mulroney said:

> I look at the Manitoba results over the past year...record growth of 4.3 per cent, an unemployment rate down to 8.6, which is remarkable compared with other provinces, employment growth of 1.4, record numbers of new jobs.
>
> Manitoba, I think, in the last year has done exceptionally well.

And the record shows that 1985 turned out to be even better than Mr. Mulroney's statistics suggest.

Agriculture

Many thousands of Manitobans and the vast majority of our communities, both rural and urban, depend directly or indirectly upon the security and stability of the family farm in our province.

In recent years, Manitoba farmers have achieved marked increases in production, setting records for a wide range of commodities in 1985. Yet, despite these achievements, the financial crisis in agriculture is deepening.

Continued increases in costs, combined with sharp declines in world prices, have placed a large segment of the farm community, and the jobs and businesses which depend on farming across Canada, in jeopardy.

Sadly, across Canada, it is the young farmers, the future strength of the industry, who are the most vulnerable. Canada cannot afford to lose more farmers, especially our young.

Our Government fully recognizes the importance of the farm sector and the urgent need for a national agricultural strategy which will ensure the future of our family farms.

We will work with the farm community and the federal government to preserve and protect this important sector.

Over the past four years, our Government has initiated or expanded programs to deal effectively with a range of urgent problems in the farm sector.

- The Manitoba Agricultural Credit Corporation (MACC), as the major vehicle for direct provincial farm financial support, has provided $120 million through its regular lending program. The lending activities of the MACC have helped more than 10,000 Manitoba farmers purchase livestock, machinery and land and also ease their debt burden.

- The Guaranteed Operating Loan Program secured a portion of the operating credit provided by banks to relatively high-risk clients. The MACC guaranteed $97 million in loans for roughly 700 Manitoba farmers.

- The Manitoba Interest Rate Relief Program provided approximately $12 million in aid to 1,200 farmers facing difficulties associated with high interest rates.

- The Interest Rate Reduction Program enabled 640 farmers to "buy down" interest rates on MACC loans, for a savings to these farmers of over $18 million.

- Over the past two years, the MACC has provided a further $10.7 million in assistance to an estimated 3,500 farmers by writing down to 8% the interest on about 5,200 loans.

- The Manitoba Beef and Hog Stabilization Programs disbursed approximately $60 million on a net basis to over 6,000 producers.

- The Provincial Government commmitted $2.9 million in support for the 1985 sugar beet crop to assist growers and maintain processing jobs.

- The Young Farmer Rebate Program provided almost $10 million in interest rate relief to young farmers.

- In 1985, the MACC made available low interest loans for farmers in financial difficulty.

- Outreach services to farmers -- relating to crops, livestock, soils, water, technical services, agricultural training and marketing -- are provided on a regional basis.

- Mediation panels provide advisory assistance to producers in severe financial distress and facilitate effective communications between hard-pressed farmers and financial institutions.

- The Department of Agriculture has continued to improve its programs and services aimed at strengthening and increasing the farm management skills of Manitoba producers.

These programs have helped. However, in the face of the current crisis in agriculture, more can and must be done. Manitoba cannot provide a substitute for national action. But, we will continue to press for an effective national agricultural policy and we will do all that we can.

Farm Start, Farm Aid and the **Fund for Rural Development** were announced in the Speech from the Throne. Later tonight, I will outline new initiatives to provide further help.

Outlook

In Canada, the rapid growth of the early recovery period in 1984 and 1985 has given way to more moderate expectations for 1986 and 1987.

Investment spending remains weak in the three westernmost provinces and Atlantic Canada. Ordinary Canadians are reducing their spending due to higher federal taxes and reduced income supports such as family benefits and unemployment insurance.

Foreign markets, while likely to benefit from lower world oil prices, have lost some of their earlier momentum and are threatened on many fronts. The decline in world commodity

prices has a direct effect on Canada's foreign trade balance, and on the financial situation of resource producers.

Interest rates have come down in recent weeks; however, the high rates maintained earlier this year have already taken their toll on interest-sensitive components of the economy and created concern that the interest rate volatility of the early 1980s may not yet be fully behind us.

Unacceptably high unemployment across Canada continues. In April, more than 1.2 million Canadians remained on the official unemployment rolls, and many of those who have found jobs still face problems of inadequate incomes and lack of full-time positions.

In Manitoba, the encouraging progress achieved over the past four years has laid the foundation for continued strong economic performance.

Manitobans, as well as other Canadian and foreign investors, recognize the opportunities for growth and development and advantages of locating new enterprises within our borders. Many independent forecasters suggest that investment will enable Manitoba to achieve economic growth exceeding the national average over the next five years and beyond. The recent Royal Bank of Canada outlook stated:

> We expect Manitoba to lead the nation in terms of real growth during the decade to 1994.

Sustained solid economic development means more job opportunities for Manitoba men and women, reduced unemployment and higher personal incomes, and more opportunities to achieve fairer and better economic, political and social well-being.

These results are not assured. However, over the past four years, our province has demonstrated what can be achieved through the efforts of individuals, businesses, co-operatives and governments working together with faith and confidence in the future.

TAX REFORM AND FAIR FEDERAL FINANCING

The actions of the federal government are critical to the provision of public services and economic development initiatives in all regions of Canada. Actions in the areas of taxation and federal-provincial fiscal arrangements are particularly important to the provinces' capacity to maintain important social and economic programs for all Canadians.

The federal government largely controls the income tax system and also provides significant transfers to all provinces to assist in the provision of important services, balanced regional economic development and the maintenance of reasonably comparable tax levels throughout our country.

Fair Taxation

Fair taxation is essential to economic and social progress and an improved quality of life. In the words of the Carter Commission on Taxation 20 years ago --

> The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed.

Regrettably, many of the Carter Commission recommendations were ignored in the "Tax Reform" of 1972. And, since then, many major tax provisions have been unfair to ordinary taxpayers.

More recently, federal tax changes have sacrificed fairness and equity in the hope of achieving faster economic growth.

Personal taxes, including income taxes, have been increased in an unfair manner. Changes to family allowances, child tax credits, and the low income federal tax reduction mean that poor and middle-income people will pay more.

Meanwhile, many wealthy individuals will pay substantially less as a result of the $500,000 capital gains exemption and the $15,500 RRSP tax deduction. Very few ordinary working Canadians can hope to profit from stock market

or real estate transactions to the extent of one-half million dollars. Similarly, the higher RRSP deduction is of no assistance to people earning less than $30,000. The maximum tax reduction of $8,685 is limited to those with income above $86,000. Federal estimates put the cost of these two concessions at more than $2 billion annually by 1990, about the same as the proposed cutbacks in federal health and higher education transfers.

A Manitoba family of four, with two children and one working spouse earning $30,000, will pay $1,368 in 1986 federal income taxes after family allowances and child tax credits are taken into account. This is a $176 or a 12.9% increase resulting from the last two federal Budgets. In contrast, an individual -- also with a dependent spouse -- receiving $50,000 of investment income will pay only $909 in federal income tax this year. This is one-third **less** than the family earning $30,000. The last two federal Budgets reduced the investor's federal taxes by $4,245 or 82.3%.

Even before the new concessions, the earnings of ordinary working Canadians constituted most of the personal income tax base. In 1983, for example, over 85% of labour income was assessed for income tax. In contrast, less than 45% of investment income was assessed on income tax returns.

Income has the same purchasing power regardless of how it is earned. It buys the same loaves of bread or litres of milk. We believe it should be subject to comparable taxation.

In total, the measures implemented and proposed by the federal government since November, 1984, will shift the balance of taxation from big business to ordinary taxpayers by $12.7 billion annually by 1991, according to estimates included with the February federal Budget.

Ironically, most major forecasting agencies have predicted that these inequitable tax increases will dampen rather than increase economic growth.

We have consistently urged the federal government to initiate fundamental and comprehensive tax reform. We will continue to do so.

There are, of course, important taxes within provincial control where action is also required. Honourable Members will be aware that the next few years will see a major province-wide property tax assessment reform. This will be carried out in the spirit of fairness and reform which is the hallmark of the New Democratic tradition which secured such improvements as:

- The abolition of Medicare and hospital premiums.
- The introduction of property tax credits.
- The introduction of income-related relief from sales taxation -- the Cost of Living Tax Credit.
- Reduced income taxes for small businesses.
- Broadened school tax assistance for pensioners.

Constrained Federal Support

As mentioned earlier, federal transfers are also crucial to maintaining fairness in taxation and service levels among the provinces.

Over the last several years, direct federal support has slipped from 43% of our Province's total revenue to under 35%. That eight percentage point drop represents close to $300 million, a very considerable sum.

Part of the problem is equalization. As Manitobans know, the changes in 1982 left our province "hardest hit" according to a former federal Finance Deputy Minister. In fact, equalization now leaves recipient provinces some $217 per person short of the national average in revenue. Both services and tax levels in equalization provinces are under additional strain because of that gap.

Equalization must bridge that gap if residents of all provinces are to be assured --

> reasonably comparable levels of public services at reasonably comparable levels of taxation

-- the very purpose of equalization as enshrined in our Constitution.

A second major problem is federal support for health and higher education. As recently as 1979, under block funding arrangements, federal support covered half of the costs of health and higher education. Today, on the basis of the same set of services, the federal share has dropped to under 45%. Interestingly, the Nielsen Task Force concluded that federal

support covered just 39.9% of health costs in Manitoba last year. The under-45% share I cited respects the block funding nature of the arrangements and includes both health and higher education. Thus, it puts the federal share in a more favourable and objective light.

Along with groups such as The Manitoba Coalition on Health and Higher Education and concerned men and women across the country, Manitoba recognizes the importance of an equal federal commitment to health and higher education. Yet, we are confronted with proposed cutbacks in federal funding in Bill C-96 which will place vital health and higher education services in some difficulty. For Manitoba, the cutbacks escalate from $13 million this year to $86 million in 1990, for a five-year total of $238 million. These cutbacks would increase the federal deficiency from equal sharing in these services to over $300 million annually by 1990. That is money our health and education services would be hard pressed to do without.

Bill C-96 proposes to cut federal support to 2% less than growth in Gross National Product annually -- in other words, to reduce the share of our economy invested in health care and education, despite concrete evidence that the needs of Canadians are growing. That raises fundamental questions:

- Can services be protected with a shrinking share of our economy invested in health care and higher education? Is the $7.5 million growth in federal cash support included in this Budget sufficient to meet national responsibilities for health services and higher education in Manitoba?

- If not, how can we best secure adequate funding in the short term, and what can we do to persuade the federal government to resume a fair share in these responsibilities over the long term?

I would ask all Members to give health and higher education financing and the question of fair federal participation careful attention. A review of the issues is appended to my Budget. Although the funding mechanisms are complex and many find them confusing, the real issues are vital services for people and how we can protect them.

We are concerned that the current lack of federal response to the need for meaningful tax reform and fair support to vital health and higher education services may signal a withdrawal by the federal government from its responsibility to the people and regions of our country.

Manitoba remains committed to working co-operatively with the federal government.

Federal-provincial co-operation helped sustain the farm community following the Depression of the 1930s, helped build the floodways in the 1960s, helped build the transmission lines from our early northern hydro projects and is helping change the face of downtown Winnipeg.

Federal and provincial governments together built our major social programs -- hospital and medical insurance, unemployment insurance and the Canada and Quebec Pension Plans.

We believe that maintaining and strengthening our economic and social progress requires a return to co-operative federalism.

EXPENDITURES 1986/87

Madam Speaker, this Budget provides $3.9 billion in resources to support long-term economic development and job opportunities and to improve the quality of life for Manitobans. That represents a 6.9% increase over last year.

It is my intention to introduce Interim Supply at the First Sitting of the Committee of Supply. This will subsume the Special Warrant passed prior to the end of the last fiscal year to provide the initial spending authority for the 1986/87 fiscal year.

ECONOMIC INITIATIVES

This Budget reinforces our commitment to jobs. By developing our resources, supporting our farms, encouraging small business and providing training and employment opportunities for young people, job creation will be sustained. Over $528 million will be spent directly on Economic and Resource Development Programs -- an increase of $27.3 million or 5%.

The Manitoba Jobs Fund

When the immediate challenges of the recession were foremost in the minds of Manitobans, the Jobs Fund moved swiftly to co-ordinate and focus Government initiatives to provide maximum stimulus and support to the economy. Job protection and creation, and the maintenance of incomes and spending, was achieved through the construction of housing, provincial buildings and community assets and wage assistance programs.

As economic conditions improved, Jobs Fund programming shifted to longer-term economic and human development initiatives. We successfully negotiated Economic and Regional Development Agreements to enhance our primary and transportation industries, to secure the future role of the Port of Churchill, and to advance the prospects of the tourism and cultural industries. Housing programs were emphasized to stimulate private residential construction. Youth programs were strengthened and focussed on providing young people with badly needed training and job experience.

These initiatives have borne fruit. Construction activity has strengthened. Major projects such as Limestone in the North, and North Portage Development in Winnipeg are under way. Prospects for development of Manitoba's potash resource

look promising. Increased housing and commercial construction is evident throughout the province.

In the light of these favourable developments, the Manitoba Jobs Fund will be continued on a slightly reduced base.

In 1986/87, the Jobs Fund will direct $197 million in resources towards a broad, long-term economic and human development thrust to ensure permanent, productive employment.

The Jobs Fund will continue to finance the crucial training component of Limestone development.

The Jobs Fund will continue to provide financing for a number of provincial components of the Economic and Regional Development Agreements.

The Jobs Fund will finance agreements with private firms which will ensure permanent employment.

Employment and wage assistance programs will focus on youth, the future strength of our province.

It is estimated that 16,100 person-years of employment have been created through Jobs Fund activity. The province as a whole has benefited immeasurably. The Jobs Fund is still needed, and will be a positive force for employment in Manitoba in 1986/87.

Agriculture

Earlier, I talked about the grave circumstances facing our farm community, the action our Government has already taken and our recognition that more needs to be done.

Concerted action to support our threatened farm community is our top priority. I am pleased to announce a major $12.2 million or 21% increase, to $70.3 million in resources focussed through the Department of Agriculture.

Our Government is allocating $6.5 million in **Special Farm Assistance** to further strengthen and reinforce our efforts under the **Farm Aid Program.** The funds will be used to assist farmers with excessive debt burdens to sustain their farming operations and to work towards long-term viability. Program moneys will be directed in particular to individuals with demonstrated production and financial management capabilities.

Together with the capital authority of the Manitoba Agricultural Credit Corporation, these funds represent a significant element in our enhanced commitment to deal aggressively with the acute farm financial situation.

The Estimates include a $5.3 million increase in support to Manitoba's income insurance funds.

Over the past three years, the Manitoba Hog and Beef Income Stabilization Plans have helped thousands of producers maintain herds and breeding stock.

Earlier this year, the Minister of Agriculture signed an agreement to bring Manitoba into the **National Tripartite Price Stabilization Program for Hogs.** Under the new National Program, premiums will be shared equally among the producers, the participating provinces and the federal government.

To allow Manitoba producers to enter the Tripartite Program with a clean slate, the Estimates provide for a write-off of the deficit of the Manitoba Plan.

This Budget reflects our continuing commitment to the Manitoba beef industry through the provision of premium contributions and interest-free loans to the Beef Stabilization Plan. Producers see greater benefit in remaining with the Manitoba Plan compared with the Tripartite Program.

Building the future of our agricultural community means helping secure retirement income for our older farmers and fairer financing to assist young farmers get started.

This Budget provides resources to implement the **Farm Start Program. Farm Start** will provide loan guarantees of up to $200,000 of the mortgage of a young beginning farmer who buys his or her land from a retiring farmer, and will help older farmers convert their land holdings into a retirement fund.

This Budget provides $12.5 million in new non-budgetary capital authority for the Manitoba Agricultural Credit Corporation, including funding for **Farm Start.** This will supplement previously available non-budgetary capital authority of $42.5 million to further support our farm community.

I would like to announce a further measure to assist farm families. The asset limit under the **Child Related Income Support Program (CRISP)** will be raised from $50,000 to $200,000 for the 1986/87 program year. About 1,500 additional families will

qualify for CRISP under the new rules. These families will receive monthly benefits of up to $30 per child beginning in July. Farm families qualifying for CRISP will also receive a special payment of up to $360 per child.

The maximum benefit for a farm family with four children will be $2,880 of which $1,560 will be delivered in July. Total payments to farm families under this initiative are estimated at $2.5 million.

Staff of the Department of Agriculture throughout the province will assist farm families in applying for benefits.

Later I will propose some tax measures to assist agricultural producers.

Business Development and Tourism

Small businesses account for a major share of the new jobs and new establishments in Manitoba.

Tonight, I am pleased to announce increased support to the small business community.

A new $50 million **Small Business Loans Fund** will be established to assist new or existing firms in meeting their long-term growth and job creation potential. In its first year, $10 million in non-budgetary capital authority will be provided.

A new **Manufacturing Adaptation Program** will provide $1.1 million in lending authority to assist companies in the adoption of new technology to increase productivity and to compete in interprovincial and export markets.

The Venture Capital Program will be continued.

Projects under the renewed Canada-Manitoba Tourism Agreement, along with the overall 12% increase in tourism expenditures represent sound investments to attract more visitors to share the riches of our province and to increase economic opportunities and jobs for Manitobans.

In total, resources provided through the Department of Business Development and Tourism will increase $1.3 million or 8.3%, to $17.0 million. Additional support is provided through the Jobs Fund and through $18 million in non-budgetary capital authority, including the Small Business Loans Fund.

Our Government will work with labour organizations to develop and implement a **Labour Sponsored Investment Program.** This Program would allow qualifying investments to earn both federal and Manitoba tax credits.

Housing

Encouraging progress has been achieved in housing over the last four years.

In the spring of 1984, a three-year construction target of 1,200 public housing units was established. Over 800 units have been committed, and the target will be reached.

The surge of interest and involvement in co-operative housing projects is particularly heartening -- one recently opened on Kennedy Street and several more are under way in downtown Winnipeg. Last year Manitoba recorded one of the best records in co-operative housing in the country.

Private sector multiple-unit construction has been assisted with the RentalStart and Rural RentalStart Programs.

The increased availability of rental accommodation is helping maintain favourable rents in Manitoba. For example, a couple can rent a one-bedroom apartment for about $370 per month in Winnipeg. The same apartment rents for about $420 in Vancouver and $440 in Toronto.

Manitoba has some of the oldest housing stock in Western Canada. A new $20 million **Home Renovation Program** will assist people in buying and repairing these homes in order to help preserve the quality and affordability of housing, renew older neighbourhoods and create jobs in the building industry.

Resources committed through the Department of Housing will total $46.2 million, an increase of $2.2 million or 5%. In addition, $70.8 million in new non-budgetary capital authority will be provided to supplement the $66.2 million available in carry-over authority for housing initiatives.

Other Economic Initiatives

The Estimates also provide major resource commitments to our highways and transportation program and for the conservation and enhancement of natural resources.

Spending through the Department of Highways and Transportation is budgeted at $197.6 million. Resources provided for the budgetary programs of the Department of Natural Resources total $84.9 million.

Capital programs included in the Jobs Fund have made an important contribution to the long-term development of our communities. Building on the success of the Mainstreet Manitoba and the Manitoba Community Assets Programs, a **Fund for Rural Development** will be established to improve the quality of roads, bridges, and water and sewer systems in rural municipalities, towns and villages. **Community facilities** will be supported through a capital program funded from lottery revenues.

VITAL SERVICES TO MANITOBANS

Madam Speaker, we are at a crossroads in the history of our health, education, social and economic services. The federal government appears prepared to reduce its role in the federal-provincial partnership which built the important social services which Canadians now rightly view as cherished rights. Ottawa is proceeding with transfer cutbacks which put increasing pressure on provincial government finances, and, in so doing, place these services at risk -- especially in the poorer provinces.

We are determined to protect public services from the federal cutbacks to the greatest extent possible. This Budget provides significant increases in resources to maintain vital services and supports for all Manitobans in 1986/87.

Health Services

This Budget devotes over $1.2 billion to meeting the health care needs of Manitobans, an increase of $73.2 million or 6.4%.

Resources allocated through the Manitoba Health Services Commission increase by 6.5%, including a $50 million increase for the Hospital Program and an additional $6 million for Personal Care Homes.

The Health budget is large and increasing but so are health care needs. We are continuing efforts to improve services.

Together with more than 150 skilled Manitobans, our Government critically reviewed all aspects of current health care provision. Specific concrete recommendations for action flowed from the review. And, action will be taken to emphasize less institutionally-based services.

Support to Home Care, helping elderly Manitobans remain in their homes, is increased by $3 million or 15%. Research and planning for the health needs of older Manitobans is substantially increased. Community-based mental health services are augmented by 28%, or $569,000.

The increase in resources committed to health services is close to ten times the increase in health and higher education cash transfers from the federal government, confirming the high priority we attach to these services for people.

Education

Manitobans have a right to be proud of their achievements in education, perhaps the best investment we can make for the future. Some $697 million is allocated for education in this Budget, an increase of 5.1% or $33.7 million.

Manitoba's universities and post-secondary institutions play a pivotal role in meeting the higher educational and training needs of our citizens. Operating grants to universities will total $161.8 million, an increase of 3.8% -- more than double the 1.8% growth in health and higher education cash transfers from the federal government. An additional $4.5 million is provided in capital funding. Funding for post-secondary, adult and continuing education will increase by $2.1 million.

Student Aid is strengthened with an increase of $1.5 million or 19%.

Support for public schools is increased by 5.8%.

Together, health and education services continue to require 50% of our Budget.

Social Resources and Assistance to Local Governments and Taxpayers

A broad range of social services is supported by resources of $736 million -- up 5.9% from 1985/86. This includes

over $200 million in direct services to Manitobans, a further $200 million in economic assistance to individuals, over $100 million in support to local governments through the Departments of Municipal and Urban Affairs, and Local Government General Support Grants, and over $200 million in property and other tax credits.

Let me briefly outline some of these services.

Community Services

Programs under Community Services receive an 11.6% increase in resources.

Day Care is already more accessible in Manitoba than in most other Canadian provinces -- we have more spaces per capita and we spend more dollars per capita than anywhere else in our country except Alberta. But this is not enough -- we must do more -- more for infants -- more for latchkey children -- more for single parents and more for those families where both partners seek employment. This Budget takes another significant step in the provision of affordable Day Care, with an increase of 13.6%.

Resources devoted to services for families suffering marital stress and breakdown are almost doubled. A 21% increase is provided for Child and Family Services Agencies. Our Government is deeply aware of the needs being met by those services.

We continue to support community-based options for our citizens with mental retardation or other handicapping conditions. The Welcome Home Program, now well under way, will be strongly supported by this Budget to enable communities to accept and provide homes for all citizens, whatever their developmental needs or potential.

Services to children with special needs receive a 9.6% increase. Probation services, designed to assist in rehabilitation as an effective alternative to incarceration, receive an increase of 12%.

More than $18.9 million in new funds is provided for services to the most vulnerable members of society. We are proud of this visible priority on people in our spending plans.

Employment Services and Economic Security

Resources devoted to Employment Services and Economic Security are also increased substantially by $23 million or 12.6%, to $207.2 million. This increase reflects our determination to meet the needs of social assistance recipients many of whom are disabled, or single-parent families.

As announced earlier this week, the Manitoba Supplement for Pensioners is being replaced with a new program, **55 PLUS**, with double the benefits and expanded eligibility. An additional 9,300 Manitobans will receive benefits. Maximum annual benefits will double to $376 for single people and to $808 for couples. Total payments under **55 PLUS** will rise to $7.1 million this year.

To complement this extension, I am pleased to announce that effective for the 1987 program years, the **Pensioners' School Tax Assistance Program** and the **Shelter Allowances for Elderly Renters** will be broadened to extend eligibility to those age 55 to 64 on the same basis as the new **55 PLUS Program.** At present, eligibility under these Programs is restricted to people whose major source of income is from pensions. This requirement will be dropped and only income levels, regardless of their source, will be considered in determining benefits.

About 10,000 additional homeowners and tenants are expected to qualify for Pensioners' School Tax Assistance, and the SAFER benefits will be extended to 1,300 more renters whose rent payments are high in relation to their incomes. Details will be announced later this year.

Funds have been allocated to support a new initiative, the **Single Parent Job Access Program,** designed to provide unemployed single parents, many of whom are on social assistance, with the support and work experience necessary to find employment.

Other

Let me now comment briefly on Manitoba Properties and public debt costs.

A $23 million increase in payments to Manitoba Properties Inc. is authorized in the Department of Government Services. However, as Members know, financing through MPI secures an overall annual net saving of $12 million to the Province, in addition to long-term benefits of prudent and

professional property management. Earlier this year, Saskatchewan emulated Manitoba and established the Saskatchewan Management Corporation to secure similar property management benefits.

The cost of servicing the public debt will increase $59.3 million to $322.3 million, or approximately 8.3% of budgeted spending -- a substantial share, but more than 3 percentage points lower than Ontario's projected 11.4% share. Manitoba's debt charges remain lower on a per capita basis than all provinces to the east.

Summary

Overall spending in many areas has been constrained tightly and in some cases reduced. Unfortunately, we have had to say "No" to demands we felt were legitimate because of the tight revenue situation and our predominant focus on health, agriculture and jobs.

In total, these Estimates provide for $3.9 billion in 1986/87 to improve our social and economic well being. They represent a sound investment and a vote of confidence in the future of all Manitobans. They continue our New Democratic Government's commitment to building a strong future -- together.

TAX CHANGES

I have already outlined our expenditure priorities, including the need to devote more resources to agriculture, education and health care. I have also talked about the costs of unfair taxation and our commitment to tax reform. And I have spoken about the threatened further erosion of federal support for vital services.

In the face of these realities, some tax increases are unavoidable. However, I am pleased to announce:

- There will be no increase in personal income taxes.
- There will be no increase in sales taxes.
- There will be no increase in taxes affecting small business.
- There will be no tax increase affecting farmers.

Increases will be confined to the minimum necessary.

The **corporation capital tax** will be increased from 0.2% to 0.3%, the same rate as in Ontario and lower than in Quebec and in Saskatchewan. The tax applies to corporations with capital in excess of $1 million. The great majority of businesses in Manitoba are not affected by the corporation capital tax. Only 4,000 out of approximately 40,000 corporations registered in Manitoba pay capital tax.

The **special corporation capital tax rate on banks** will be increased from 1.9% to 3% for the 1986 taxation year. The new rate is the same as that applied in Saskatchewan. Trust and loan companies will also have their tax rate increased, from 0.6% to 0.9%. Credit Unions and Caisses Populaires are presently exempt from corporation capital tax, and will continue to be exempt.

The **large business corporate income tax rate** is increased from 16% to 17%, the same as in Saskatchewan, effective January 1, 1986. This change affects less than 15% of Manitoba's taxable corporations. Smaller businesses with taxable incomes of less than $200,000, are not affected by this measure.

There are two changes in **motive fuel taxes.**

To offset the cost of inspecting vehicles using propane, inspections necessitated for reasons of safety, the special motive

fuel tax rate on propane will be increased by 0.5¢ per litre to 5.3¢ per litre.

In addition, motive fuel taxation will be extended to compressed natural gas used in all internal combustion engines in lieu of taxation under the Revenue Act, 1964. The rate will be 7¢ per kilogram effective June 1, 1986. The motive fuel tax will apply both on and off highway. The tax is lower on an energy equivalent basis than those applied to other fuels.

Water power rental rates will be increased by $7.00 to $11.75 per horsepower-year of output. Installed capacity rates will be increased proportionately. With the increases, Manitoba's effective rates will be comparable with those of British Columbia and Ontario.

The **tobacco tax** will be increased by 1¢, from 3.1¢ to 4.1¢ per cigarette. The rates on fine-cut tobacco products will be increased proportionately.

These measures, along with some adjustments in fees and licences will increase 1986/87 revenue by $69.8 million. Additional details are included in Appendix C.

Farm Tax Relief

Earlier this spring, our Government acted in an area of ongoing concern to the farm community -- fuel prices. The rapid decline in world oil prices presented an important opportunity to reduce spring seeding costs for farmers. However, the oil industry refused to pass on these savings -- threatening to place Manitoba farmers at a further disadvantage in relation to their American competitors.

A border-point dyeing program was instituted, permitting farmers to import gasoline and qualify for Manitoba's farm fuel tax exemption. The initiative has been successful in securing the benefits of lower world oil prices for our farmers. For the first time in many years, the oil industry passed the full benefit of the Manitoba farm fuel tax exemption on to our farmers. In fact, the price differential increased to more than the rate of provincial fuel taxes paid by non-farmers. Estimated savings already achieved are in the order of $8 million, or about $250 for a typical Manitoba farmer.

Representatives of various farm organizations and the Province have met extensively during the last year to devise a

permanent method of ensuring that farmers receive the full benefit of the Manitoba farm fuel tax exemption. Agreement was reached on replacing the current system of dyed fuel with a new **Manitoba farm fuel tax credit** administered through the income tax system.

Such a tax credit would:

- ensure farmers receive the benefits of the over $30 million fuel tax exemption;
- broaden farmers' fuel purchasing opportunities;
- enable farmers to shop for the most advantageous fuel price;
- eliminate the need to dye farm fuels;
- facilitate on-farm use of unleaded fuels; and
- simplify the storage requirements for rural fuel outlets.

Manitoba, therefore, asked for federal co-operation in administering the fuel tax credit on 1986 income tax returns.

As proposed, in addition to the fuel tax exemption delivered through the dyeing system, farmers would be able to claim the tax credit based on farm fuel purchases this year. Over 30,000 Manitoba farmers would qualify for the tax credit. On average, each qualifying farmer would realize a $1,000 benefit. The credit would be delivered at approximately the same time farmers begin to make major purchases of taxed fuels in 1987.

Farmers will be surprised to learn that the federal government has not agreed to permit this important program to be delivered through the income tax system. I remain optimistic, however, that we will be able to overcome federal objections. If federal concurrence is obtained by June 30, 1986, the new fuel tax credit will be available on 1986 income tax returns.

BUDGETARY POSITION SUMMARY

This Budget proposes that $3.9 billion in resources be devoted to initiatives and services to help sustain and augment economic development and long-term job opportunities while preserving and, in some important cases, improving vital public services. This is a 6.9% increase over last year.

Revenue will increase 8.3% to $3.4 billion.

The total budgetary requirement is estimated at $489.4 million, down 1.4% or $6.8 million from last year's estimate and down more significantly from the $554 million projected for 1985/86 in the Third Quarter Financial Statement.

This year's budgetary requirement, though substantial, is about 2.6% of Gross Provincial Product -- down substantially from 3.1% in 1982/83 and the lowest share in five years. Budgetary requirements are lower in relation to the economy. I believe that is the appropriate result as the economy improves.

After deducting planned capital spending of $265.8 million, this year's net operating deficit will total $223.6 million. To put the operating deficit in perspective, in relation to the economy, it represents 1.2% of Gross Provincial Product, compared with 1.5% projected for last year and 1.4% in 1982/83. It is also almost $10 million less than the shortfall in equalization from the all-province national average.

Earlier I referred to the important impact federal decisions and federal actions have on our budgetary bottom line. This year's budgetary requirement of $489.4 million would be significantly lower without the cumulative effects of past and planned cuts in health and higher education funding. And, there would be more funds available for our vital services.

NON-BUDGETARY CAPITAL REQUIREMENTS

Our Government's capital investment plans will continue to play an important role in improving the quality of life in Manitoba. Capital investment, both directly by the Province, and through our Crown Corporations, makes a significant contribution to the vibrance of our economy, provides construction and permanent jobs and improves our overall prospects and potential for the future.

Manitobans recognize the value of investing for the future. Critics who focus only on the borrowing necessary to undertake important investments would do well to consider the tremendous value of the physical assets and infrastructure, and the direct and indirect contributions these investments have made to the quality of life of people in our province.

As at March 31, 1986, our total direct and guaranteed debt stood at $7.3 billion net of sinking funds. We could reduce it substantially if we sold some of the assets the investment financed by that debt helped secure. For example, more than half our direct and guaranteed debt is related to Manitoba Hydro and the Manitoba Telephone System. These could be sold and the debt reduced. But, would we be better off? Would a family be better off by selling its home to pay off its mortgage?

Madam Speaker, I will be tabling tonight a summary of our Government's non-budgetary capital authority requirements, totalling $1.35 billion for the current year.

The requirements include a further $940 million for Limestone, sufficient to authorize the remaining major contracts on the project. Approximately $184 million is expected to be spent on Limestone construction during the year.

The non-budgetary capital investment program, including Limestone, is expected to total $894 million in 1986/87, approximately 6.6% or $55 million greater than last year. Apart from Limestone, the investment program includes major planned expenditures by Manitoba Hydro for its regular program -- $100 million; Manitoba Telephone System -- $149 million; Manitoba Housing and Renewal Corporation -- $137 million; and the Jobs Fund -- $119 million.

Planned expenditures of $80.2 million are targeted to the agricultural sector through the Manitoba Agricultural Credit Corporation and the Beef Stabilization Fund.

Total borrowing requirements for 1986/87 are now estimated at $1.4 billion, about the same as last year. The total includes budgetary requirements, non-budgetary requirements and refinancing of issues which mature during the course of the year. The Canada Pension Plan and other off-market sources are expected to provide $137 million with the remaining $1.3 billion to be raised through public bond markets.

CONCLUSION

Manitobans have a vision for the future; a future in which all Manitobans can participate; a future that will provide benefits for all within our society; a future where those requiring assistance and encouragement receive it fairly and with dignity.

Madam Speaker, this Budget moves us closer to that vision. No goal worth having can be accomplished in a single step. There are many more steps to be taken and a great deal more to be done before we have fulfilled Manitobans' vision for the future.

This Budget is an important building block for that future. We have set the stage for continued strong social and economic progress. We are reaffirming the important principle that economic and social development do indeed go hand in hand. Meaningful progress can only be achieved with a fairer sharing of, and better access to, the rewards of economic development.

We are proud of our efforts to aid the struggling agricultural community. Indeed, this Budget clearly demonstrates that this Government is prepared to do, and is doing, more to help our farmers than any other government in the history of this province.

Finally, Madam Speaker, this Budget demonstrates our Government's commitment to stand up for the needs of all Manitobans. We will not sit idly by as Manitoba services and jobs are threatened by poorly thought-out actions at other levels.

This Budget calls on all Manitobans to work together and build for the future.

- It continues the **Jobs Fund**, with a greater emphasis on longer-term development and permanent jobs.

- It helps our farm community directly at this time of crisis with:

  - a 21% increase in Department of Agriculture resources, including $6.5 million in **Special Farm Assistance**;

  - implementation of **Farm Aid** and **Farm Start**;

  - timely special support for farm families -- up to $720 for each child, $2,880 for a family with four

children -- under the **Child Related Income Support Program**; and

- **Manitoba fuel tax relief** benefits, which, if the federal government agrees, will be delivered directly to Manitoba farmers through their income tax returns so that they are not siphoned off by the oil industry.

° It provides for the new **55 PLUS Program** for pensioners, delivering double the benefits of the former Manitoba Supplement for Pensioners' Program, and important extensions of **Pensioners' School Tax Assistance** and **Shelter Allowances for Elderly Renters.**

° It sustains vital health and education services for all Manitobans with a $107 million increase, almost $100 million more than the $7.5 million increase in federal health and higher education support.

° It proposes limited tax increases, aimed at securing a fairer share from big business, to help pay for these measures.

° It recognizes the importance of comprehensive tax reform and fair taxation to the nation's social and political fabric.

° It shows we are prepared to stand up for Manitoba and work co-operatively with the federal government to avert unfair cutbacks and secure fair federal support for important services.

° It secures a modest reduction in the budgetary requirement and sets the stage for further reductions as our economy improves.

The plans we have introduced today are sensible and practical -- they will help Manitobans meet the challenges of the future and make our province a better and fairer place to live.

Thank you.

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Appendix C: TAXATION
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Appendix A:

FINANCIAL STATISTICS

Appendix A:

FINANCIAL STATISTICS

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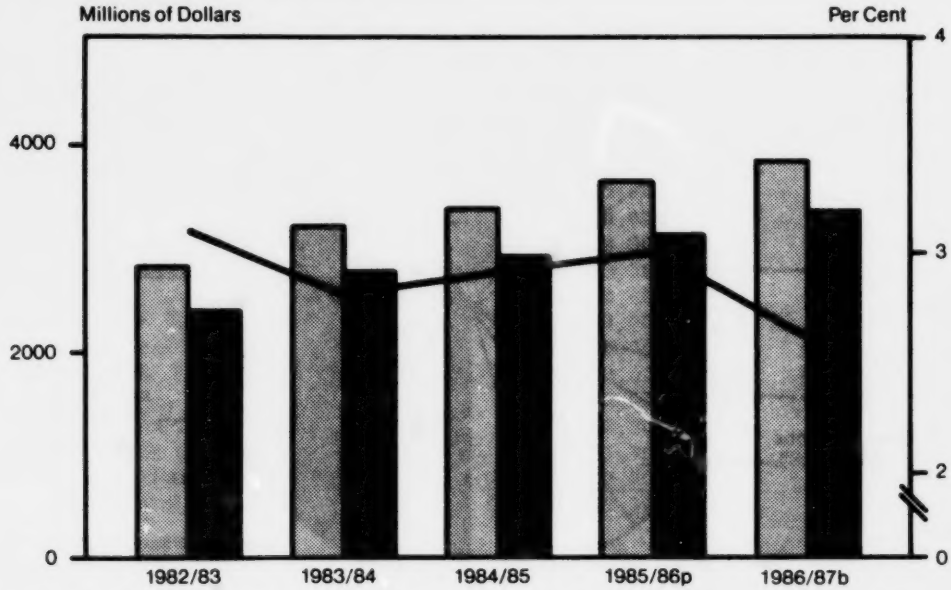
Manitoba's Budgetary Position
Summary, 1982/83 to 1986/87



Left Scale: ▨ Expenditure (current and capital) ■ Total Revenue

Right Scale: ━ Budgetary Requirement as a percentage of Gross Provincial Product

p—projected b-budget

Source: Manitoba Department of Finance

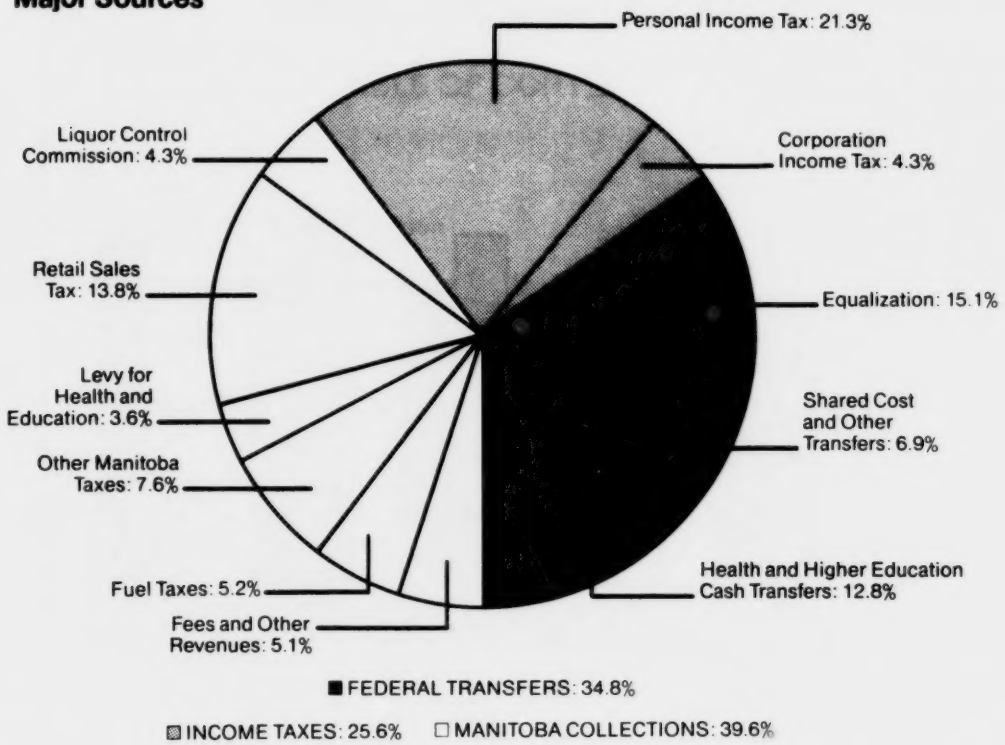
SUMMARY OF BUDGETARY POSITION

	1985/86 Budget	1985/86 Third Quarter Projected	1986/87 Budget
	(Millions of Dollars)		
Total Current and Capital Expenditure	3,619	3,664	3,870
Less: Total Revenue	3,122	3,110	3,380
Total Budgetary Requirement	496	554	489
Less: Gross Capital Expenditure	304	285	266
Net Operating Deficit	193	269	224

(Totals may not add due to rounding.)

Provincial Revenue, 1986/87

Major Sources


Personal Income Tax: 21.3%
Corporation Income Tax: 4.3%
Equalization: 15.1%
Shared Cost and Other Transfers: 6.9%
Health and Higher Education Cash Transfers: 12.8%
Fees and Other Revenues: 5.1%
Fuel Taxes: 5.2%
Other Manitoba Taxes: 7.6%
Levy for Health and Education: 3.6%
Retail Sales Tax: 13.8%
Liquor Control Commission: 4.3%
FEDERAL TRANSFERS: 34.8%
INCOME TAXES: 25.6%
MANITOBA COLLECTIONS: 39.6%

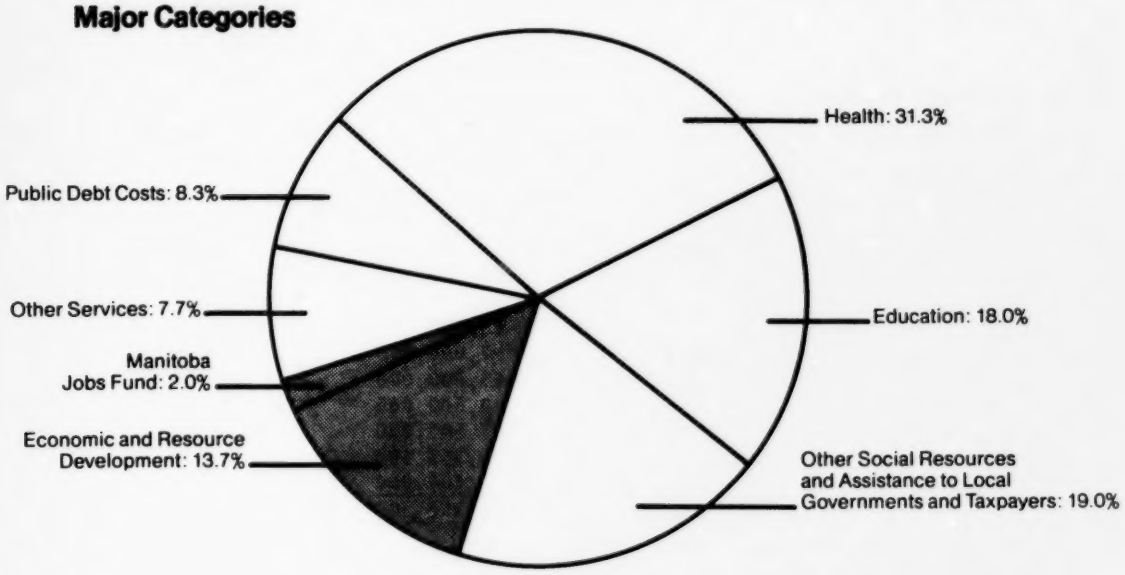
ESTIMATES	$ Millions		$ Per Capita	
Manitoba Collections		1,337.2		1,238
Retail Sales Tax	465.0		431	
Fuel Taxes	175.6		163	
Liquor Commission	145.0		134	
Levy for Health and Education	123.5		114	
Other Taxes	256.1		237	
Fees and Other Revenue	172.0		159	
Income Taxes		866.2		802
Corporation Income Tax	146.5		136	
Personal Income Tax	719.7		666	
Federal Transfers		1,176.8		1,090
Equalization	510.8		473	
Health and Higher Education	434.0		402	
Shared-Cost and Other	232.0		215	
TOTAL REVENUE		**3,380.2**		**3,130**

1986/87 Revenue Estimates

		1986/87 Estimate	% of Total
OWN SOURCE REVENUE			
Manitoba Collections		$1,337,246,600	39.6
Taxes, Levies and Collections			
° Corporation Capital Tax	$ 41,100,000		
° Gasoline Tax	115,000,000		
° Insurance Corporations Tax	17,200,000		
° Levy for Health & Education	123,500,000		
° Mining Tax	35,600,000		
° Motive Fuel Tax	60,600,000		
° Oil & Natural Gas Tax	7,000,000		
° Retail Sales Tax	465,000,000		
° Revenue Act, 1964, Part I	34,500,000		
° Tobacco Tax	97,500,000		
° Other Taxes	5,155,300		
° Reciprocal Taxation Agreement	18,100,000		
Sub-Total	$1,020,255,300		
Fees and Other Revenue			
° Fines & Costs; Land Titles; & Other Legal	$ 26,089,000		
° Minerals & Petroleum & Other Energy & Mines	5,089,600		
° Automobile & Motor Carrier Licences & Fees	30,320,600		
° Drivers' Licences	5,804,400		
° Water Resources	31,267,400		
° Parks; Forestry; Fisheries & Other Natural Resources	12,801,200		
° All Other Manitoba Collections	60,619,100		
Sub-Total	$ 171,991,300		
Liquor Control Commission	$ 145,000,000		
Income Taxes		866,200,000	25.6
° Corporation Income Tax	$ 146,500,000		
° Individual Income Tax	719,700,000		
FEDERAL TRANSFERS		1,176,759,700	34.8
Equalization	$ 510,800,000		
Health and Higher Education Cash Transfer	$ 434,000,000		
Shared-Cost and Other Transfers			
° Canada Assistance Plan	$ 152,496,000		
° Canada-Manitoba Training Agreement	22,570,800		
° Other	56,892,900		
Sub-Total	$ 231,959,700		
TOTAL REVENUE		**$3,380,206,300**	**100.0**

Provincial Expenditure, 1986/87

Major Categories


Health: 31.3%
Public Debt Costs: 8.3%
Other Services: 7.7%
Education: 18.0%
Manitoba Jobs Fund: 2.0%
Economic and Resource Development: 13.7%
Other Social Resources and Assistance to Local Governments and Taxpayers: 19.0%

▨ ECONOMIC DEVELOPMENT: 15.7%

□ PUBLIC SERVICE AND OTHER EXPENDITURES: 84.3%

ESTIMATES	$ Millions	$ Per Capita
Health	1,209.8	1,120
Education	697.1	645
Other Social Resources and Assistance to Local Governments and Taxpayers	736.3	682
Economic and Resource Development	528.7	490
Manitoba Jobs Fund	78.4	73
Other Services	297.0	275
Public Debt Costs	322.3	298
TOTAL EXPENDITURES	**3,869.6**	**3,583**

1986/87 Expenditure Estimates

		1986/87 Estimate	% of Total
Health		$1,209,795,200	31.26
Education		697,099,900	18.02
Other Social Resources and Assistance to Local Governments and Taxpayers		736,267,300	19.03
° Community Services	$182,757,900		
° Culture, Heritage & Recreation	20,653,300		
° Employment Services & Economic Security	207,242,900		
° Labour	9,333,500		
° Municipal Affairs	39,001,800		
° Urban Affairs	59,477,900		
° Local Government General Support Grant	13,800,000		
° Tax Credit Payments	204,000,000		
Economic and Resource Development		528,673,000	13.66
° Agriculture	$ 70,272,200		
° Business Development & Tourism	17,030,100		
° Co-operative Development	7,455,900		
° Crown Investments	614,800		
° Energy & Mines	12,437,500		
° Environment & Workplace Safety & Health	12,321,500		
° Highways & Transportation	197,560,900		
° Housing	46,162,000		
° Industry, Trade & Technology	8,919,300		
° Natural Resources	84,864,600		
° Northern Affairs	26,537,200		
° Canada-Manitoba Enabling Vote	8,165,200		
° Hydro Rate Stabilization	36,331,800		
Manitoba Jobs Fund		78,458,600	2.03
Other Services		296,965,400	7.67
° Legislation	$ 11,217,800		
° Executive Council	2,601,900		
° Attorney-General	74,990,300		
° Civil Service	54,492,200		
° Consumer & Corporate Affairs	4,439,900		
° Emergency Interest Rate Relief	1,184,000		
° Finance - Departmental Programs	16,108,100		
° Government Services	130,931,200		
° Flood Control & Emergency Expenditures	1,000,000		
Public Debt Costs		322,347,500	8.33
TOTAL EXPENDITURE		$3,869,606,900	100.0

Incremental Capital Authority Requirements for Non-Budgetary Programs, 1986/87

The Loan Act, 1986

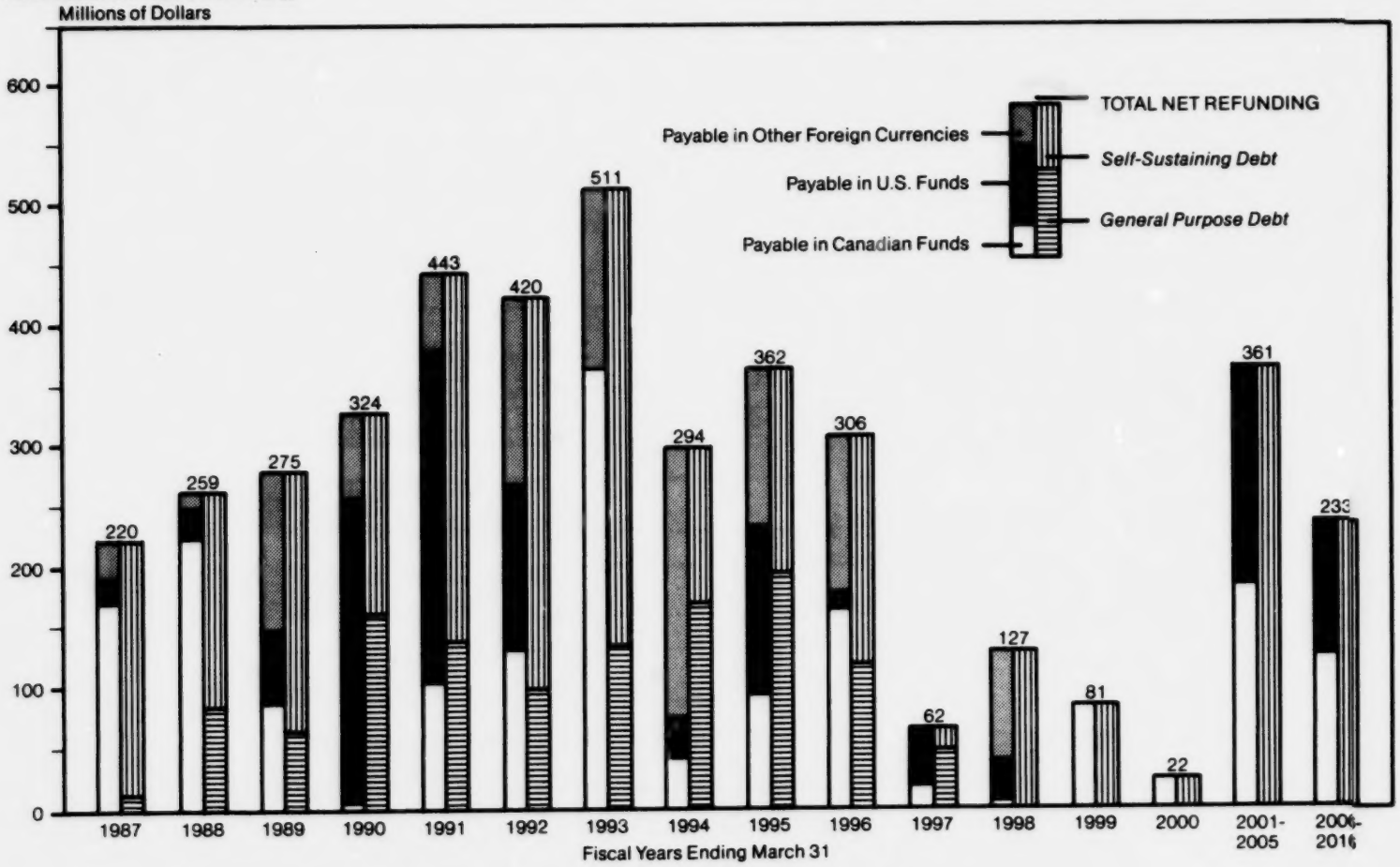
The Manitoba Telephone System		$ 65,600,000
The Manitoba Agricultural Credit Corporation		12,500,000
Farm Start	$5,000,000	
General	7,500,000	
Manitoba Development Corporation		65,000,000
Manitoba Beef Stabilization Fund		16,600,000
Small Business Loans Fund		10,000,000
		$ 169,700,000

The Loan Act, 1986(2)

Manitoba Jobs Fund	$ 40,000,000
The Manitoba Hydro-Electric Board	6,200,000
The Manitoba Hydro-Electric Board - Limestone	940,000,000
The Manitoba Housing and Renewal Corporation	70,800,000
Manfor Ltd.	13,500,000
Manitoba Hazardous Waste Management Corporation	2,500,000
Manitoba Properties Inc.	37,500,000
Communities Economic Development Fund	1,600,000
Energy Conservation Loan Fund	50,000,000
Tourism Agreement 1985 to 1990	8,000,000
The University of Manitoba	10,000,000
Venture Manitoba Tours Ltd.	1,500,000
	$1,181,600,000
	$1,351,300,000

Province of Manitoba Direct and Guaranteed Debt
Net Refunding Requirements by Fiscal Year: By Currency of Payment and Purpose

As at March 31, 1986 (Preliminary)



Note: The above table indicates the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt after applicaton of sinking funds based on the Canadian Dollar Equivalent on the date of issue.

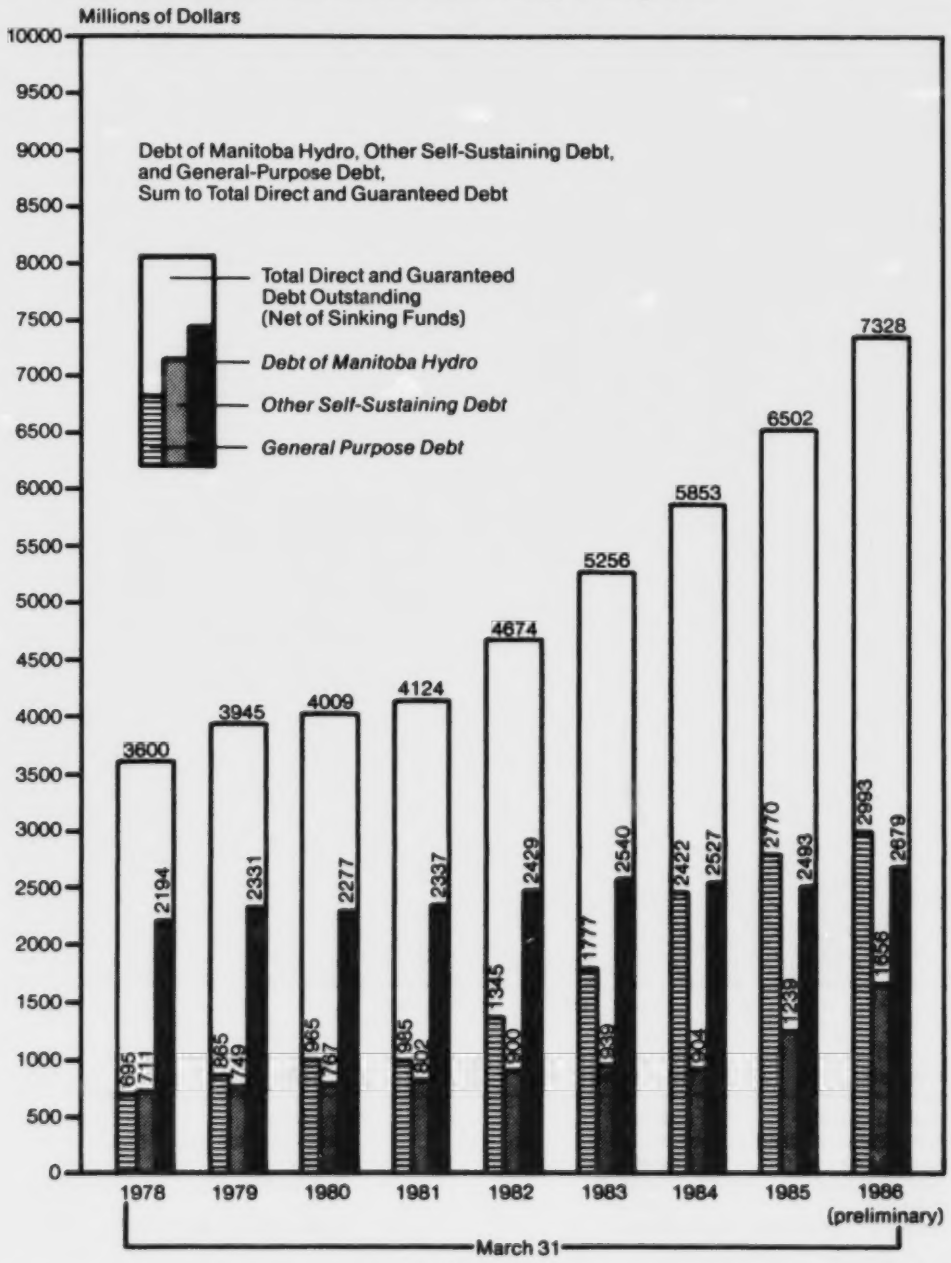
Statement of Valuation and Purpose of Bonds, Debentures, and Other Long-Term Debt Outstanding

as at March 31, 1986 (Preliminary)
(in thousands)

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Exchange Rate as at March 31, 1986	Canadian Dollar Valuation	Foreign Exchange Fluctuation
Direct Debt Payable in:					
Canadian Dollars	3,421,714	$3,421,714	$1.00	$3,421,714	$ -
U.S. Dollars	1,204,000	1,464,096	1.3973	1,682,349	218,253
Swiss Francs	1,084,000	606,132	0.7160	776,144	170,012
European Units of Account	4,000	4,320	2.9242	11,697	7,377
Japanese Yen	132,700,000	709,864	0.007472	991,499	281,635
Deutsche Marks	600,000	289,226	0.5959	357,540	68,314
Total Direct Debt		$6,495,352		$7,240,943	$ 745,591
Guaranteed Debt Payable in:					
Canadian Dollars	1,078,591	$1,078,591	$1.00	$1,078,591	$ -
U.S. Dollars	773,000	772,490	1.3973	1,080,113	307,623
Swiss Francs	160,000	85,354	0.7160	114,560	29,206
Deutsche Marks	22,582	6,915	0.5959	13,457	6,542
Total Guaranteed Debt		$1,943,350		$2,286,721	$ 343,371
Total Direct & Guaranteed Debt		$8,438,702		$9,527,664	$1,088,962
Less: Sinking Funds		1,111,076		1,111,076	-
Net Direct and Guaranteed Debt		$7,327,626		$8,416,588	$1,088,962
Purpose of Debt					
General Government Programs		$2,993,392		$3,450,090	$ 456,698
Other:					
The Manitoba Hydro-Electric Board		$2,678,737		$3,269,209	$ 590,472
The Manitoba Telephone System		595,871		637,663	41,792
Manitoba Properties Inc.		399,143		399,143	-
The Manitoba Agricultural Credit Corporation		207,705		207,705	-
Manitoba Jobs Fund Programs		168,065		168,065	-
The Manitoba Housing & Renewal Corporation		107,742		107,742	-
Manfor Ltd.		81,920		81,920	-
The Manitoba Beef Stabilization Fund		21,000		21,000	-
The Manitoba Water Services Board		19,468		19,468	-
Emergency Interest Rate Relief Program		9,000		9,000	-
Manitoba Mineral Resources Ltd.		8,400		8,400	-
The Manitoba Hog Income Stabilization Plan		7,600		7,600	-
University of Manitoba		6,327		6,327	-
Manitoba Data Services		5,095		5,095	-
The Manitoba Oil and Gas Corporation		5,000		5,000	-
Venture Capital Program		1,000		1,000	-
Federal-Provincial Loan Agreements		10,635		10,635	-
Municipal, Hospital & Other Indebtedness		1,526		1,526	-
		$4,334,234		$4,966,498	$ 632,264
Net Direct and Guaranteed Debt		$7,327,626		$8,416,588	$1,088,962

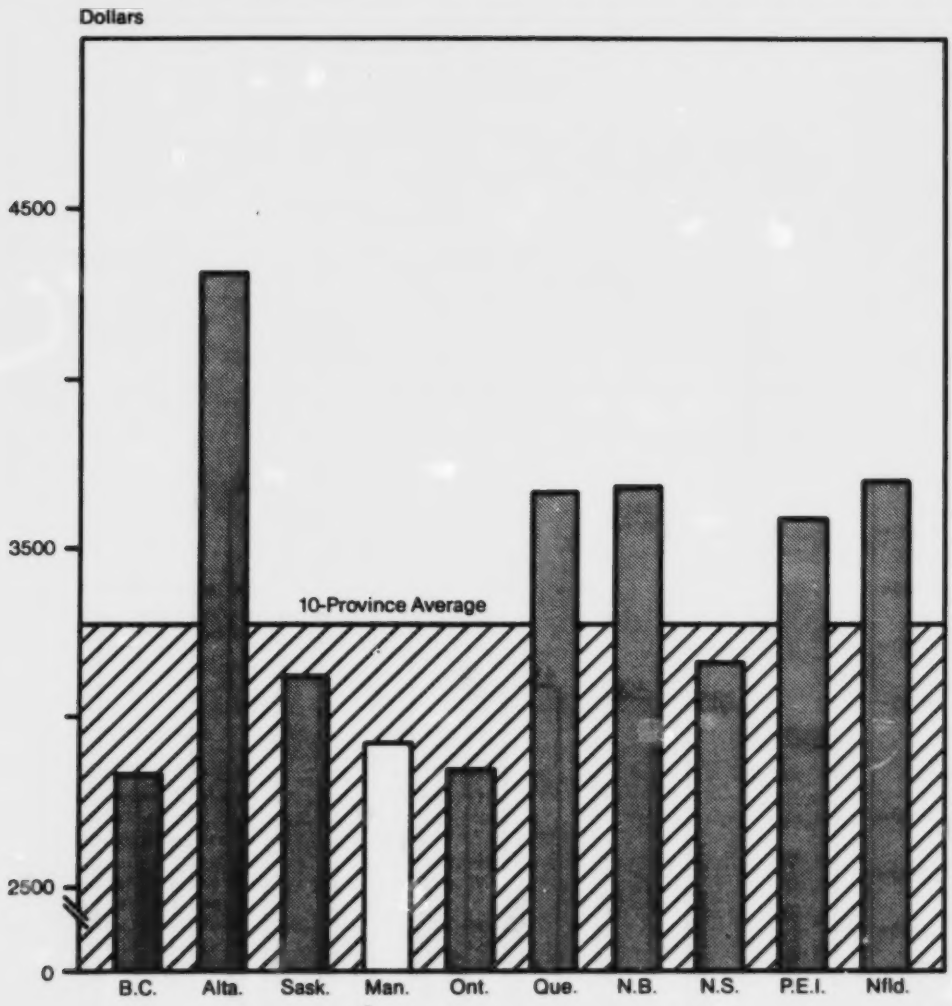
NOTE: The March 31, 1986 Canadian Dollar Valuation of the Province's Japanese Yen Debt is based on 107.2 billion Japanese Yen converted at a rate of $0.007873 Canadian and U.S. $105.6 million (representing 25.5 billion Japanese Yen covered under currency exchange agreements) converted at a rate of $1.3973 Canadian.

Province of Manitoba
Direct and Guaranteed Debt: By Purpose



Note: The above table indicates the Total Direct and Guaranteed Debt of the Province of Manitoba (after deducting Sinking Funds) based on the Canadian Dollar Equivalent on the date of issue for all foreign debt.

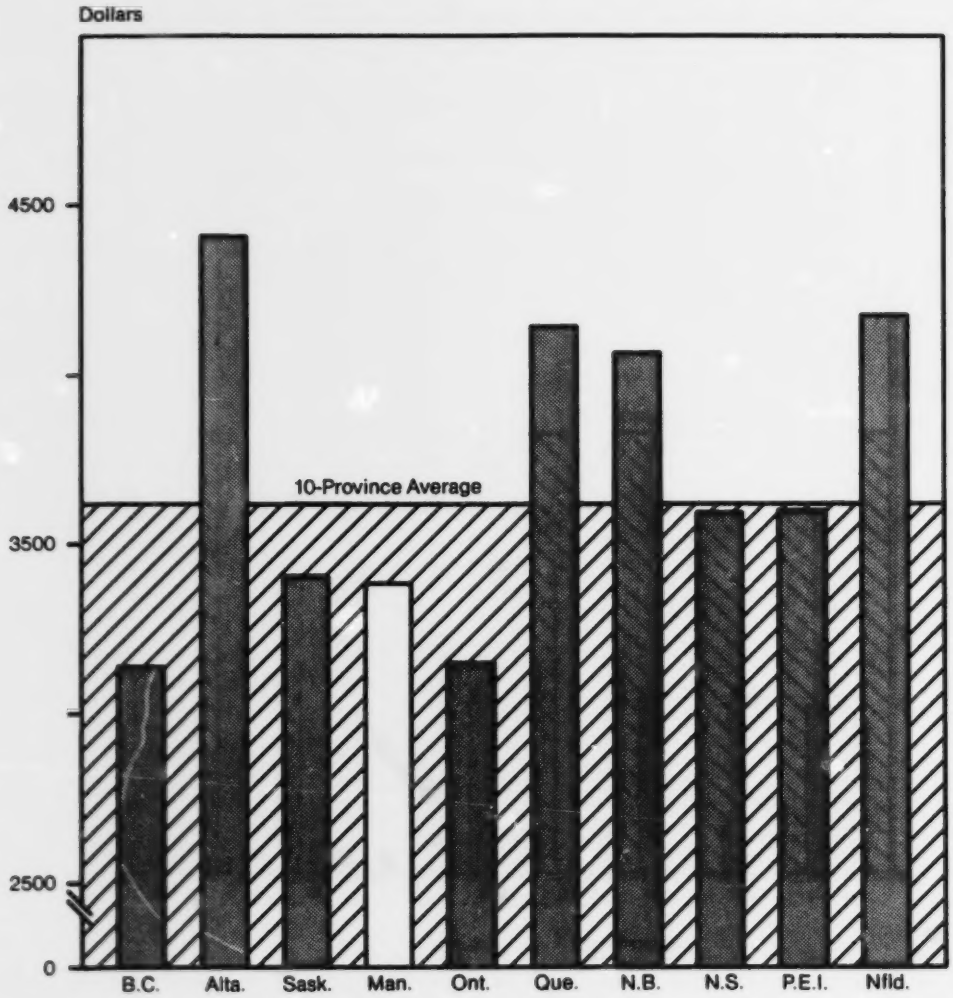
Revenue Per Capita, 1985/86
Interprovincial Comparison



Province	Dollars Per Capita	Province	Dollars Per Capita
Newfoundland	3671	Manitoba	2919
Prince Edward Island	3567	Saskatchewan	3115
Nova Scotia	3143	Alberta	4293
New Brunswick	3665	British Columbia	2823
Quebec	3655		
Ontario	2834	10-PROVINCE AVERAGE	3254

Source: Canadian Tax Foundation
Based on 1985/86 Provincial Budget Estimates

Expenditure Per Capita, 1985/86
Interprovincial Comparison



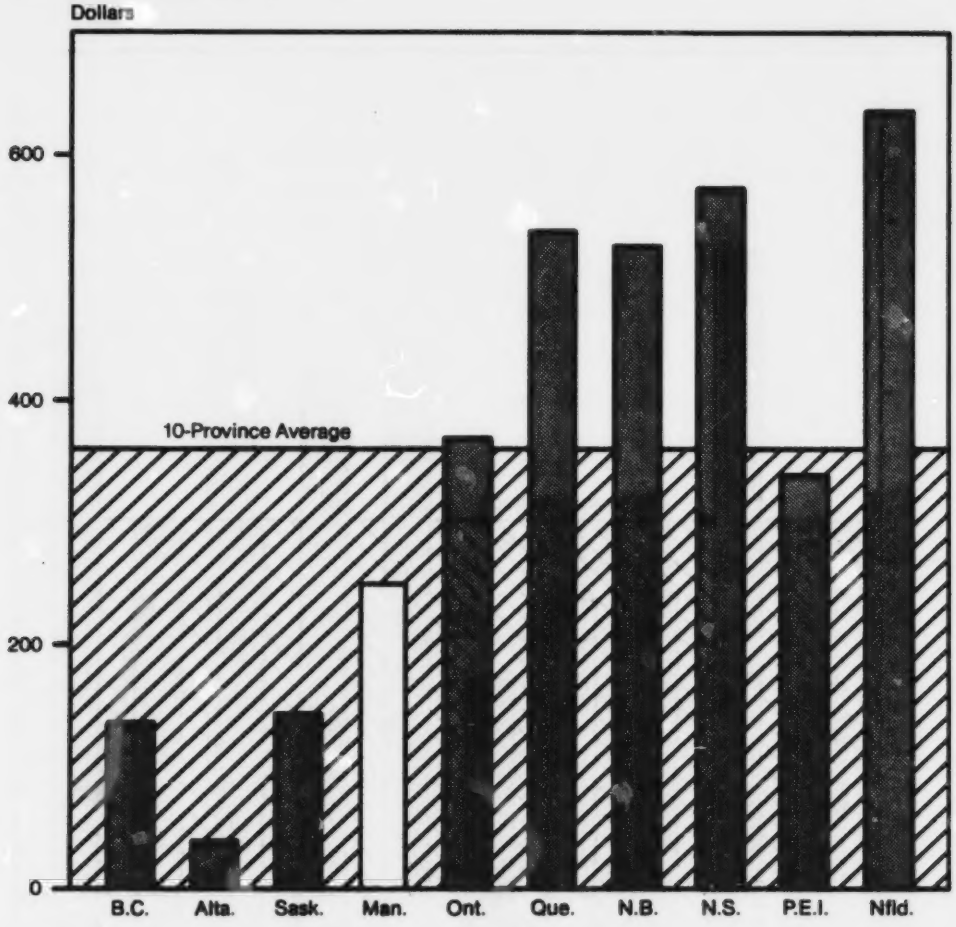
Province	Dollars Per Capita	Province	Dollars Per Capita
Newfoundland	4170	Manitoba	3383
Prince Edward Island	3603	Saskatchewan	3400
Nova Scotia	3600	Alberta	4400
New Brunswick	4065	British Columbia	3131
Quebec	4133		
Ontario	3143	10-PROVINCE AVERAGE	3605

Note: Excludes Ontario's special expenditure adjustment of $408 per capita in 1985/86.

Source: Canadian Tax Foundation
Based on 1985/86 Provincial Budget Estimates

Debt Charges Per Capita, 1985/86

Interprovincial Comparison



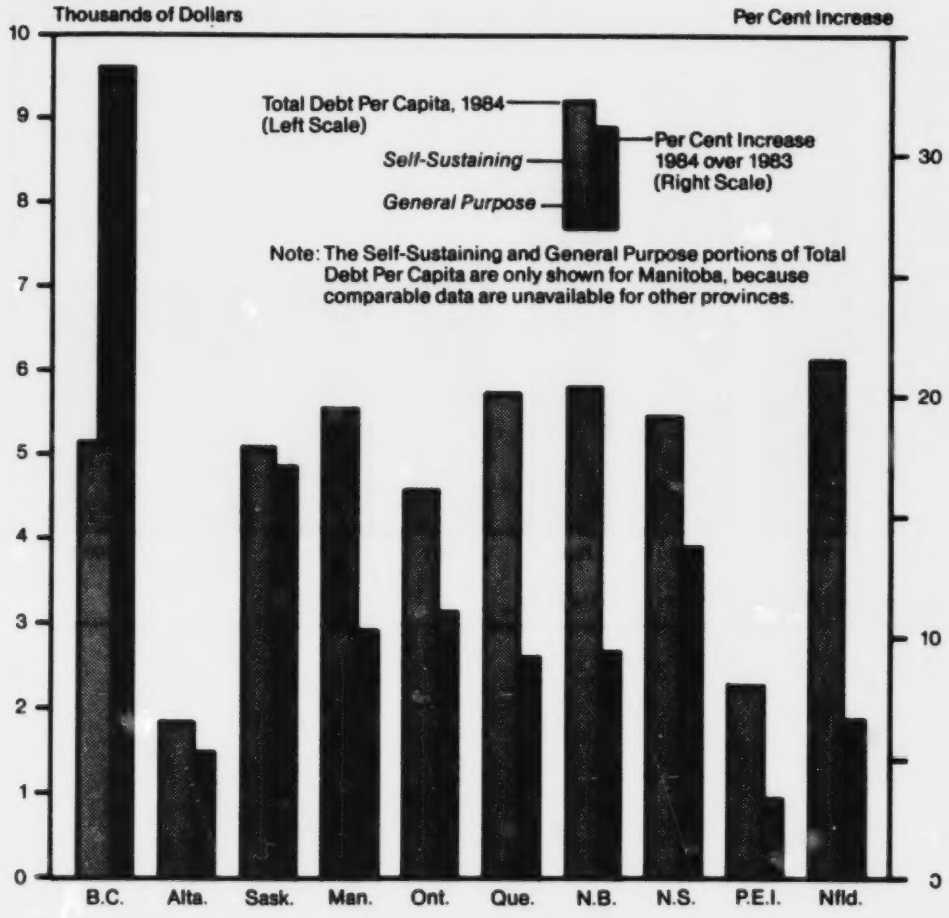
Province	Dollars Per Capita	Province	Dollars Per Capita
Newfoundland	635	Manitoba	246
Prince Edward Island	336	Saskatchewan	140
Nova Scotia	570	Alberta	35
New Brunswick	520	British Columbia	133
Quebec	532		
Ontario	362	10-PROVINCE AVERAGE	354

Source: Canadian Tax Foundation
Based on 1985/86 Provincial Budget Estimates

Total Debt Per Capita

Interprovincial Comparison

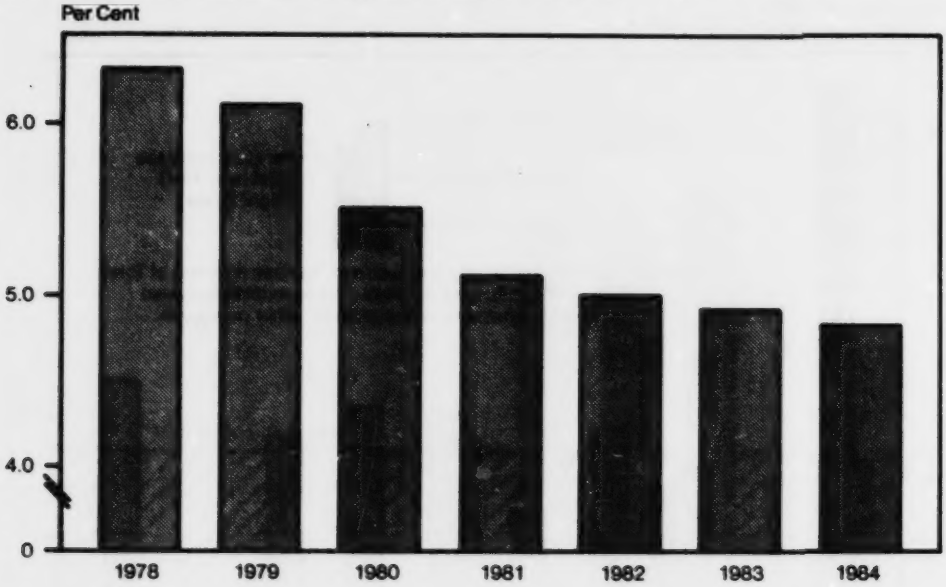
as of March 31, 1984



Province	March 1983 ($ Thousands)	March 1984 ($ Thousands)	Increase (Per Cent)
Newfoundland	5,751	6,124	6.48
Prince Edward Island	2,235	2,311	3.40
Nova Scotia	4,803	5,461	13.70
New Brunswick	5,313	5,814	9.43
Quebec	5,232	5,721	9.35
Ontario	4,145	4,607	11.14
Manitoba	5,048	5,567	10.28
Saskatchewan	4,384	5,129	16.99
Alberta	1,796	1,892	5.34
British Columbia	3,851	5,150	33.73

Source: Bank of Montreal, Provincial Summaries, 1985

Manitoba's Debt as a Portion of 10-Province Debt, 1978 to 1984



Source: Bank of Montreal Provincial Summaries

Appendix B:

ECONOMIC REVIEW

Appendix B:

ECONOMIC REVIEW

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ECONOMIC REVIEW

EXTERNAL ENVIRONMENT

Manitoba's economy is significantly influenced by economic conditions and policy decisions taken outside the province, especially in the rest of North America. The relatively diverse economic structure of the province, augmented by government efforts to strengthen its resilience, has provided a counterbalance to the severity of cyclical swings in the national and international economies. However, Manitoba is not immune to developments in its export markets, the impact of national fiscal and monetary policies, and international trade and exchange rate adjustments which are taking place.

The international recession of the early 1980s marked a sharp cyclical correction following the energy price shocks, high inflation, extremely volatile financial markets, and slow real economic growth of the 1970s. In recent years, inflation has been substantially reduced and growth restored in most developed nations.

The cost of these adjustments, however, has been high, and particularly so in Canada. Unemployment in Canada remains at 1,239,000, or 9.6% of the labour force. Inequality among Canadians has increased -- the average incomes of the 20% of families with the highest incomes increased 13% relative to low-income families between 1981 and 1984, and the number of families living below the Statistics Canada poverty line increased by 31%, to more than one million. Business investment, in real terms in 1985, remained 10.7% below its 1981 level, and its share of Gross National Expenditure (GNE) was almost five percentage points lower than in the early 1980s. As well, a tougher trading environment and increased protectionism have emerged in the world marketplace, and the structure of currency and financial relationships has shifted markedly in recent years.

The following table summarizes developments in the Canadian economy in the past five years.

Canadian Economic Performance, 1981 to 1985

	1981	1982	1983	1984	1985
Real GNE (% change)	3.3	-4.4	3.3	5.0	4.5
Business Investment					
Real (% change)	6.9	-11.5	-6.1	-0.5	8.1
Share of GNE (%)	22.0	16.6	16.6	16.2	17.1
Inflation (% change)					
Consumer Price Index	12.5	10.8	5.8	4.4	4.0
Raw Materials Price Index (excl. energy)	0.7	-3.8	2.5	5.3	-2.3
Unemployment (%)	7.5	11.0	11.9	11.3	10.5
90-Day Corporate Paper Rate, Year-End (%)	15.65	10.25	9.85	10.00	9.40
Exchange Rate (in U.S. $)	.83	.81	.81	.77	.73

Source: Statistics Canada and Bank of Canada Review.

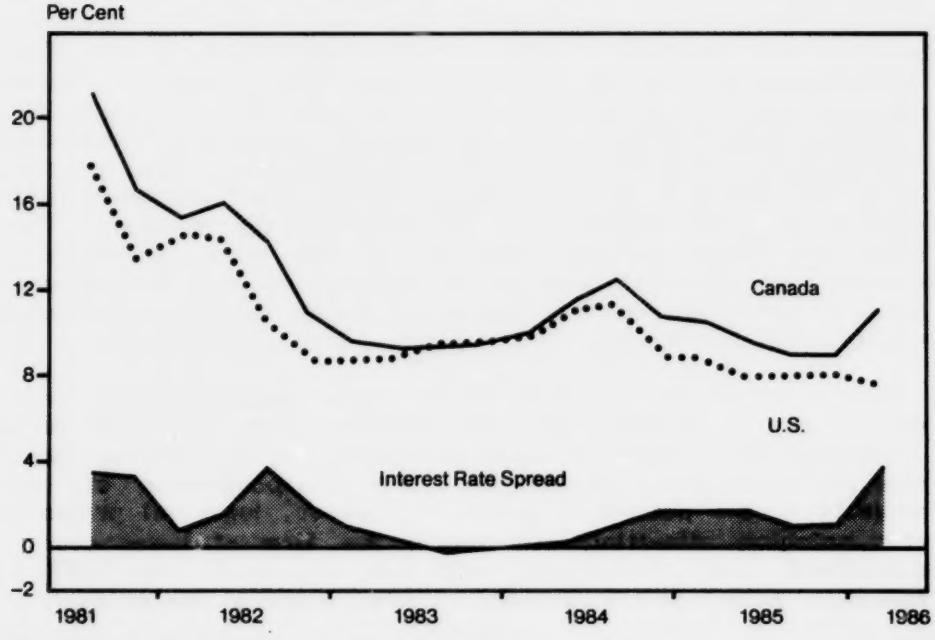
Expansion in the domestic components of the Canadian economy became stronger and more broadly based in 1985, offsetting to a large extent the slowdown in growth of exports to the U.S. which had been the fastest growing component of demand in 1984. However, the slowdown in the growth of exports, accompanied by continued rapid growth in imports, eliminated the current account surplus which had emerged in Canada's balance of international payments from 1982 to 1984, and returned the account to its characteristic deficit position.

As noted above, investment spending continued to be weak, although some growth was recorded in 1985 for the first time in four years. As well, gross business investment fell substantially short of gross private savings. While savings provide a potential source of funds to finance spending in the economy, they must actually be borrowed and spent in order to contribute to current demand for goods and services and to employment opportunities. In fact, an excess of savings over investment tends to depress the level of output and employment, unless an alternative spending outlet for those savings exists. In Canada, a significant portion of government deficits in recent years has served to fill the savings-investment gap in the private sector of the economy, and thereby support total demand and employment levels.

Prior to the February, 1986 federal Budget, the Organization for Economic Co-operation and Development estimated that Canada's deficit reduction strategy represented the most restrictive fiscal policy stance among major industrial countries -- sufficient to reduce GNE growth by about 1.0% in 1986. Further expenditure reductions and tax increases announced in the February, 1986 Budget have intensified the contractionary thrust of fiscal policy. As well, the 1985 and 1986 Budgets included medium-term measures which are expected to further constrain the federal contribution to domestic demand for the remainder of the decade.

At the same time, monetary policy again became more restrictive with the interest spread between Canadian and U.S. short-term interest rates averaging 3.2 percentage points over the first four months of 1986, compared with a more normal spread of 1 to 1.5 percentage points.

Short-Term Interest Rate Comparison, Canada and the U.S., 1981 to 1986



Note: Short-term interest rates are for 90-day commercial paper.
Source: Bank of Canada Review.

It is widely recognized that fiscal strategies to reduce government deficits must go hand in hand with appropriate interest rate and monetary policies, including exchange rate policy. The federal government, for example, noted in its recent Budget documents that the international environment would be more favourable to Canada's prospects for employment and economic growth if deficit reduction in the United States is accompanied by lower interest rates and more expansionary monetary policy. The Macdonald Royal Commission and C.D. Howe Institute have made similar recommendations for more expansionary monetary policy to accompany a tightening of fiscal policy in Canada. However, recent federal policy has pursued both tighter fiscal policy and restrictive monetary policy in an attempt to limit exchange rate movements.

The federal Budget projected growth in real GNE to slow, from 5.0% and 4.5% in 1984 and 1985, to 3.7% and 3.0% in 1986 and 1987, respectively. These projections were premised upon a number of factors, including: stronger U.S. growth by the second half of 1986; continued strong growth in personal consumption expenditure; a resurgence in private investment; and only a moderate current account deficit in international payments.

At present, there is little indication of significant improvement in business investment spending. Statistics Canada's latest investment survey, conducted in late 1985 and early 1986, showed little growth in business investment intentions. Subsequently, significantly higher interest rates than prevailed when the survey was undertaken, and than assumed in the federal scenario, persisted in the first quarter of 1986. These rates are likely to have delayed, at the least, purchases of interest sensitive components of both consumer and business demand such as durable goods, housing and non-residential construction investment.

Although interest rates have moderated in recent weeks, total investment spending intentions are lower than earlier projections as a result of lower oil prices and the scaling back of energy exploration expenditure and postponements of major projects in the petroleum sector. However, lower oil prices are also bringing offsetting benefits in the form of lower costs to consumers and businesses, and are expected, by 1987, to stimulate growth and investment in other areas of the economy.

Since Canada is a net exporter of petroleum, lower prices are likely to increase Canada's current account deficit. However, over time, some improvement in Canada's current account balance is expected if lower oil prices lead to an

acceleration of economic growth in Canada's main export markets -- the United States, Japan and the European Economic Community.

The current account deficit in 1985, and the even larger one predicted for 1986, imply a continuation of higher unemployment and lower domestic investment than would be expected if the foreign sector were in balance. Stronger growth among Canada's trading partners may improve this situation in the future. However, in terms of demand for current output in the economy, the federal deficits in 1985 and 1986 can be seen as offsetting both a foreign sector imbalance and a domestic savings-investment gap, while monetary policy is directed toward the defence of the dollar and raising foreign capital to finance the net imbalance. Monetary policy designed to ease domestic credit conditions and to facilitate internal sourcing of finance might well enable the economy to achieve a more rapid reduction in unemployment than present circumstances would indicate.

DEVELOPMENTS IN MANITOBA

Economic and Policy Overview

The Manitoba economy has recorded growth at or above the national average over the past several years. For a number of key economic indicators, including output, incomes and investment, Manitoba has had among the strongest performance of any province. As a result, the province's position, relative to the national standard, has improved since the beginning of the decade and the foundation has been laid for further progress into the 1990s.

In 1985, Gross Provincial Product reached an estimated $18.1 billion, an increase of about 7.5%, or almost 5% in real terms. Investment continued to be an engine of growth in the Manitoba economy, as it has over the entire recovery period, and as it is projected for 1986. On the basis of the most recent Statistics Canada survey, private and public sector investment in Manitoba is projected to have increased over the 1982 to 1986 period at a rate five times the national average, and to have been the strongest among provinces. Public sector investment in Manitoba has provided both a direct contribution to growth and a stimulus to the private sector. In contrast, public investment has declined in many parts of Canada.

Employment growth in Manitoba was reestablished earlier than in most other provinces following the downturn in 1981 and 1982, and, relative to pre-recession levels, the province continues to have a favourable record compared to Canada. Employment in Manitoba averaged 480,000 in 1985.

The latest statistics from the National Council of Welfare indicate that, in 1984, poverty rates declined in Manitoba and Prince Edward Island, although the incidence of poverty in the rest of Canada continued to increase.

The province's diversified industrial structure contributed to Manitoba's relatively better performance during the recession and recovery. In addition, provincial initiatives designed to sustain and strengthen the economy helped shield Manitoba from some of the worst impacts of the international recession. Active participation by the Provincial Government was maintained, as Manitoba's economic expansion began to take shape. Over the past four-year period, the key feature of the province's economic development strategy has been balance -- between sectors and between economic and social efforts. While major strategic projects have an important role to play, the Government recognizes that they represent only one component of an effective economic development strategy.

In the 1983 Budget, the Manitoba Jobs Fund was established, consolidating many of the initiatives of the Provincial Government to enhance Manitoba's ability to take early advantage of a national recovery, to maintain and create employment opportunities and to raise the long-term potential of the economy. As the economy moved out of recession and into more substantial recovery, the focus of Government policy and the Jobs Fund shifted from shorter-term capital intensive stimulation to longer-term economic development and job creation. Many Jobs Fund projects were undertaken in co-operation with other orders of government or the private sector. Since its inception, Jobs Fund projects have provided 837,200 work-weeks, or approximately 16,100 person-years of employment for Manitobans. Through the Jobs Fund, many businesses have been helped to maintain or expand their operations in Manitoba, communities throughout the province have been provided with new or improved assets, and many youth initiatives and training programs have been undertaken. These efforts reflect the Government's belief that social and economic development must go hand in hand.

Given that 90% of business in Manitoba is small business, the Provincial Government has taken an active role in providing services and support to small businesses. During the recession, small business, along with individuals and farmers, received interest rate assistance. As well, in the 1982 Budget, the Provincial Government reduced its corporate tax rate for small business, and increased by one-third the capital tax exemption. Current provincial policies foster development of commercial opportunities throughout the province by providing consulting, counselling and informational assistance. In addition, through the Venture Capital Program, the Provincial Government encourages the formation of private venture capital for investment in small business.

In an effort to improve our province's trade balance, programs have been initiated to encourage the export of Manitoba goods and services. As well, the Provincial Government has come forward with an array of programs to provide Manitobans with access to the latest available technology so that they can compete more effectively in the evolving world market. To increase our province's productive capital base, the Investment Manitoba Program, involving Development Agreements between Government and private firms, has been initiated, resulting in an expansion of industrial and job opportunities within the province.

In addition to a wide variety of programs to provide training and education, the Province has given a high priority to programs designed to provide young Manitobans with immediate employment and opportunities to develop skills and gain work

experience. Over the past four years, major programs for youth have included: Careerstart, Youth Business Start, Manitoba Graduates in Business, the Student Temporary Youth Employment Program (STEP), Northern Youth Corps, and the Manitoba Jobs and Training Program. More recently, the Job Access for Young Adults Program, jointly funded by the Manitoba Jobs Fund and the Canadian Jobs Strategy, has been developed to provide opportunities for young Manitobans with less than a Grade 12 education to receive a combination of training and work experience leading to permanent jobs.

The reversal of the population out-migration trends characteristic of the late 1970s resulted in a sharp increase in housing demand at the same time as interest rates rose to historically high real levels. In order to alleviate a shortage of affordable housing units in Manitoba, and increase employment in the construction sector, the Provincial Government initiated its Homes in Manitoba and Rentalstart Programs. In 1985, the Rentalstart Program assisted approximately 900, or just over one-third, of all multiple-unit housing starts in Manitoba.

In 1984, the provincial and federal governments signed a 10-year Economic and Regional Development Agreement (ERDA) in order to co-ordinate economic development planning and programming in Manitoba, and to facilitate several major initiatives through a series of subsidiary agreements. Provincial and federal government expenditures are expected to exceed $400 million through the ERDA during its first five years. In 1985, progress has been made in the areas of Agriculture and Food Development, Mineral Development, Transportation Development, Development of the Port of Churchill, Forest Renewal, Communications and Cultural Enterprises Development, and Tourism.

Governments have also worked together as a catalyst to private activity. North Portage Development provides an excellent example of how the co-operative efforts of the city, provincial and federal governments have stimulated a major redevelopment of Winnipeg's downtown core. This, in turn, has spawned several major adjacent developments in the private sector which are transforming the urban environment and giving it a vitality that has not been evident for many decades.

In April, 1986, the Government of Manitoba and Canamax Resources Incorporated entered into a new Co-ownership and Development Agreement, intended to lead to a final decision on the Manitoba potash project. Encouraging results have been obtained from the already-completed program of land acquisition, comprehensive seismic evaluation and detailed metallurgical testing of the deposit. An intensive evaluation of the proposed site for

the mine and surface facilities will be completed by the summer of 1986. Detailed engineering, marketing and consortium development activities are under way. Located in the Russell-Binscarth area of southwestern Manitoba, the potash deposit has indicated reserves sufficient to support annual production of two million tonnes of low-cost potash for more than 30 years.

Construction of the Limestone Generating Station not only represents a major direct investment by the public sector, but also a recognition of the key role of social capital in the development of the province's natural wealth. Limestone is the largest project of its kind currently under construction in North America. The major construction phase of the $1.9 billion Project began in 1985 and is expected to create 19,000 person-years of direct and indirect employment over an eight-year period. Limestone has seen the introduction of northern and northern Native hiring preferences that have resulted in significant employment opportunities for these groups. The hiring preferences, together with Manitoba Hydro's internal Affirmative Action Program, are providing a project-management example for the rest of Canada. Once in operation, Limestone will provide a valuable asset to Manitobans, both in terms of its revenue and electrical generating capacity.

In recent years, the agricultural sector in Western Canada has had to contend with the effects of the most severe recession since the Depression, with periods of drought and with international market conditions which have constrained both price and sales volumes. Grain producers have been caught in the middle of an agricultural trade war between the United States and the European Economic Community; and the Canadian Wheat Board has announced a 19% reduction in the initial price for western wheat for the 1986/87 crop year, adding to the already serious financial pressures on the agricultural sector. Manitoba's relatively diversified agricultural sector is likely to mean that the serious consequences of international developments will be somewhat less pronounced in Manitoba than across the rest of the Prairies. While the limited assistance program announced by the federal government will provide some relief, a more concerted national effort is required to preserve the productive base in western Canadian agriculture.

Provincial Government support for the agricultural sector over the past four years has been wide-ranging and reflects its commitment to the stability of the agricultural community and the family farm on which it is based. Financial and credit assistance has been provided to farmers through the lending authority of the Manitoba Agricultural Credit Corporation

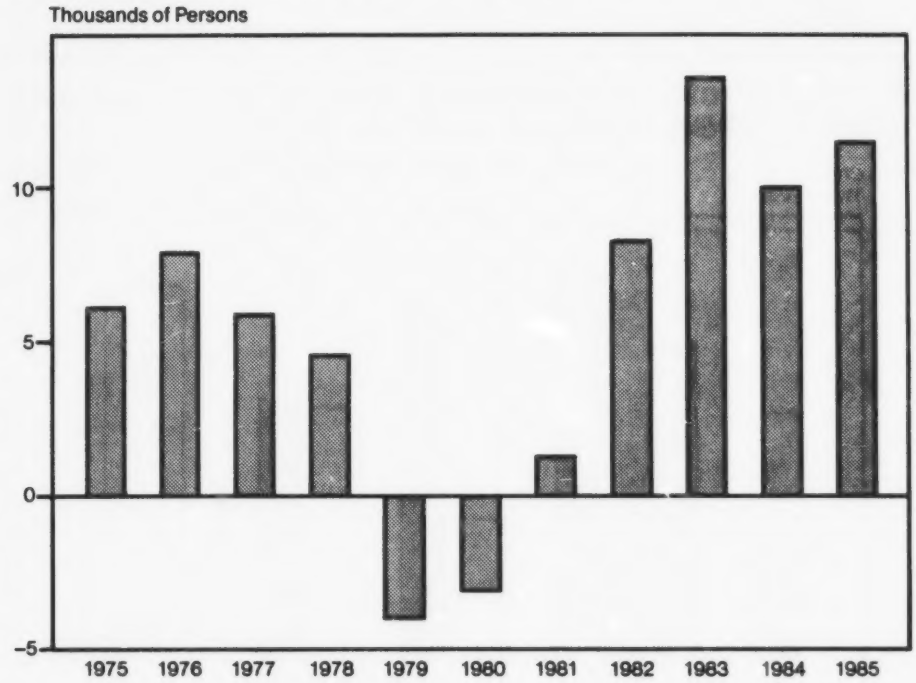
(MACC). Initiatives administered by the MACC include: the Guaranteed Operating Loan Program, the Interest Rate Relief Program, the Interest Rate Reduction Program, the Comprehensive Refinancing Program and the Part-Time Farmers Program. The Manitoba Crop Insurance Corporation provided Manitoba farmers with income protection against crop failures. Farm financial review panels were established to provide advisory assistance to farmers in severe financial distress and to facilitate effective communcation between farmers and their lending institutions.

The Provincial Government has been active in responding to the structural and financial problems of beef and hog production, with stabilization programs designed to protect farmers from severe declines in income due to volatile prices. In addition, it has passed the Farm Lands Ownership Act to preserve and strengthen Manitoba's family farms by placing restrictions on purchases of land by absentee landlords, speculators and foreign investors.

Population

Beginning in 1982, Manitoba recorded strong population growth, as the province experienced a favourable shift in interprovincial migration. The population losses in 1979 and 1980 were reversed sharply and, over the 1981 to 1985 period, Manitoba's population growth exceeded the national average for the first time in several decades. Between June, 1981 and June, 1985, the population of Manitoba rose by 43,400, and by January, 1986, reached 1,075,400. The increase in population over the past four-year period has been the best the province has recorded since the close of the early development era at the end of the First World War.

Population Change, 1975 to 1985



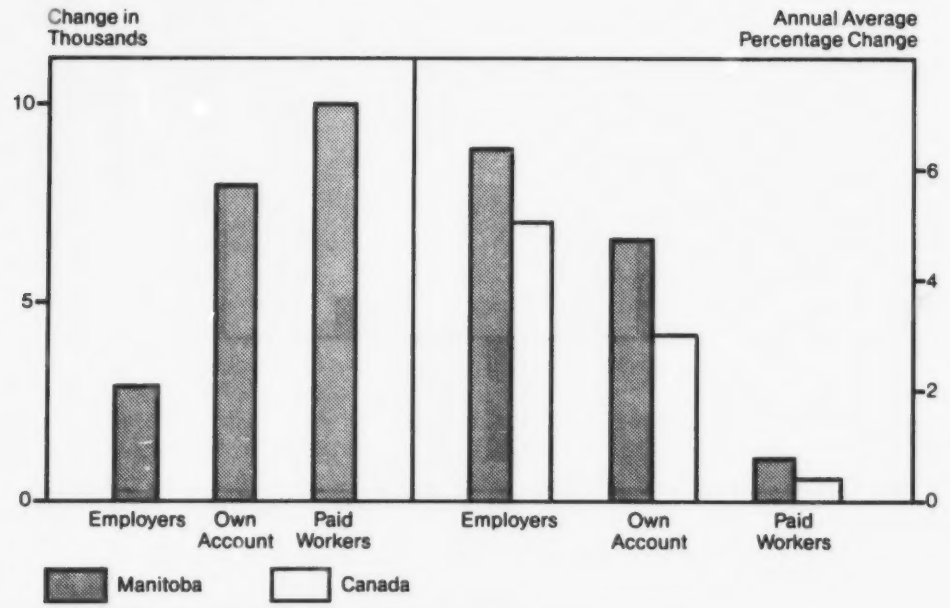
Note: Estimates are for years ending June 1.
Source: Statistics Canada.

Labour Market

Employment in Manitoba averaged 480,000 in 1985, an increase of 1.7% from 1984. The pace of job creation strengthened in the second half of the year, such that by December, 1985, the year-over-year growth in employment was 4.1%. Estimates for April, 1986, indicate that employment in Manitoba increased to 490,000 on a seasonally adjusted basis, 3.4% above April, 1985.

Aside from slightly stronger total employment growth than in Canada as a whole, it is noteworthy that, relative to the national average, a greater proportion of the gain in Manitoba was in full-time employment and in the private sector. Of the 19,000 increase in employment in Manitoba between 1981 and 1985, over one-half were full-time jobs. In Canada, fewer than one-eighth were full-time.

Private Sector Employment, Manitoba and Canada, 1981 to 1985

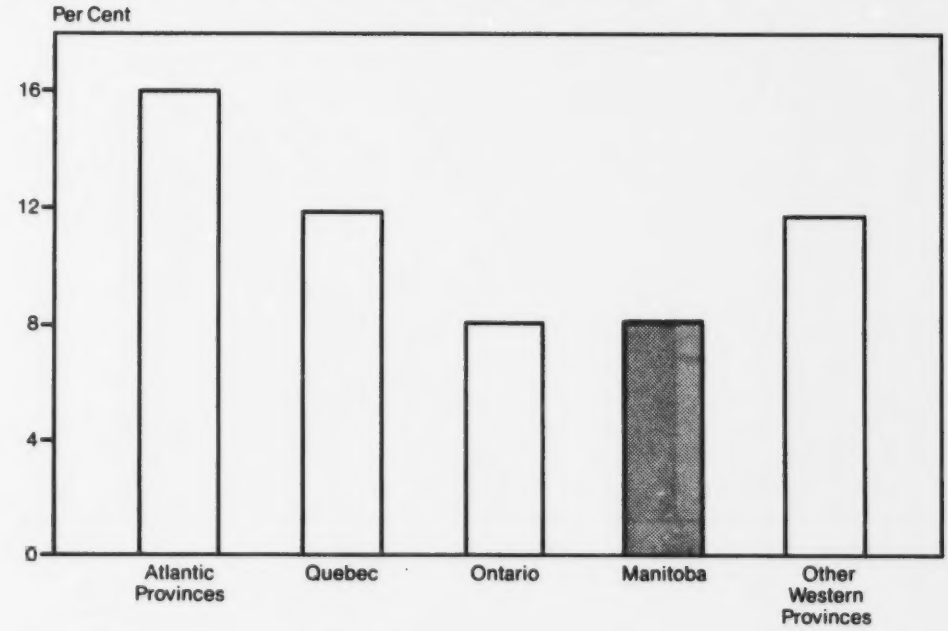


Source: Statistics Canada.

All of the employment growth in Manitoba between 1981 and 1985 was in the private sector of the economy. Employment among paid private sector workers increased at an average annual rate of 0.8% over the 1981 to 1985 period in Manitoba, compared with 0.3% in Canada. It is noteworthy that job creation in this category accounted for fully one-half of the total increase in employment in the province between 1981 and 1985. Stronger employment growth was also evident among employers and self-employed workers, where average annual increases were 6.2% and 4.7% in Manitoba, and 5.1% and 3.0% in Canada, respectively. These increases in the number of employers and self-employed workers suggest that a healthy climate for enterprise exists in the province.

The unemployment rate in Manitoba averaged 8.1% in 1985, the second lowest among provinces for the third consecutive year and well below the national average of 10.5%. Between December, 1984 and December, 1985, the unemployment rate fell by 1.5 percentage points to 7.6%.

Unemployment Rates by Region, 1985



Source: Statistics Canada.

Manitoba's youth unemployment rate in 1985 fell by 4.1 percentage points over the course of the year, with employment about 4.0% or 4,000 higher by December, 1985, than a year earlier. Manitoba's youth unemployment rate averaged 13.9% in 1985, second lowest among provinces and well below the Canadian rate of 16.5%.

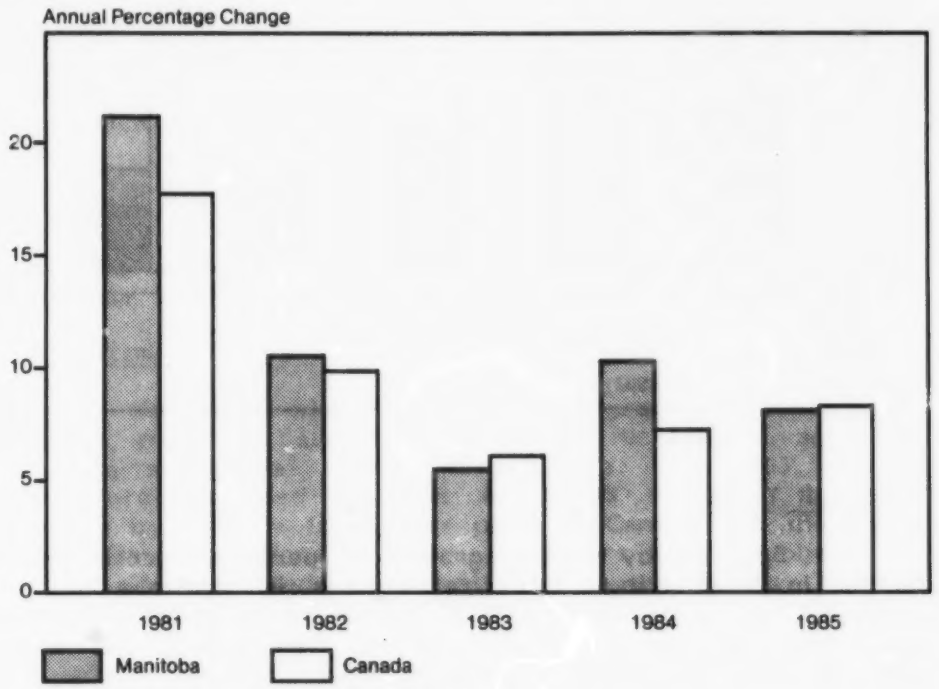
Approximately 150,000 workers, or 37%, of the non-agricultural-paid labour force in Manitoba belong to labour unions. Industrial relations have been characterized by a strong commitment on the part of both workers and employers to resolve differences through collective bargaining -- resulting in a high success rate in avoiding work stoppages. From 1982 to 1985, Manitoba, along with Prince Edward Island, had the lowest number of person-days lost to strikes and lockouts among provinces. The amount of time lost in work stoppages relative to the total number of employees in Manitoba was less than one-sixth of the national average over this period.

Personal Sector

Incomes and Prices

Preliminary estimates for 1985 indicate that personal income in Manitoba increased by 8.3% to $15,700 million, and personal disposable income by 8.5% to $13,300 million. Personal income growth in Canada, meanwhile, increased by 8.4%. Over the 1981 to 1985 period, personal income in Manitoba grew at an average annual rate of 8.7%, compared with 8.0% for Canada; and growth in personal income exceeded growth in the Consumer Price Index (CPI) by a wider margin in Manitoba than in Canada. Thus, real personal income increased at an average annual rate of about 2.7% in Manitoba, compared with 1.7% for Canada as a whole.

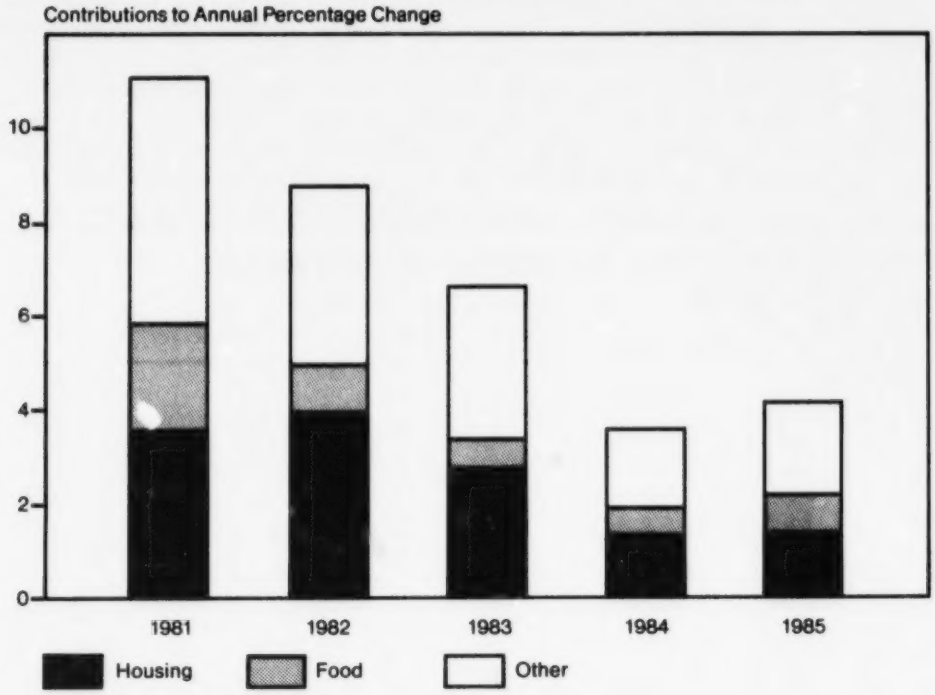
Personal Income, Manitoba and Canada, 1981 to 1985



Source: Statistics Canada and Manitoba Bureau of Satistics.

The Consumer Price Index for Winnipeg increased by 4.2% in 1985, slightly above the 4.0% increase for Canada as a whole. Over the 1981 to 1985 period, Manitoba experienced slightly less overall inflation than Canada, largely as a result of slower growth in the food component of the CPI.

Consumer Price Index, Winnipeg, 1981 to 1985



Source: Statistics Canada (CANSIM).

Retail Trade

Spurred by strong growth in personal income and a decline in the savings rate, retail sales in Manitoba in 1985 increased by 13.4% over the 1984 total. This growth was well above the 9.4% average for the 1981 to 1985 period, and higher than the 10.6% increase in Canada in 1985.

In Winnipeg, retail sales increased by an estimated 13.6% in 1985, the strongest increase in any major city in Canada. Outside of Winnipeg, retail sales increased by an almost equally impressive 13.0% over the 1984 level. Sales growth was strongest among motor vehicle dealers, automotive services, grocery stores, and furniture and appliance stores.

Value of Retail Sales, 1981 to 1985

	1985		1981 to 1985	
	Millions of Dollars	Annual Percentage Change	Average Annual Percentage Change	Change in Percentage Share of Total
Grocery and Food	1,289.8	11.3	9.1	-0.2
Department, General and Variety	909.3	5.1	3.5	-4.1
Motor Vehicle	1,045.0	30.2	12.4	2.1
Service Stations, Garages and Parts	576.5	16.0	17.0	2.7
Clothing and Shoe	228.3	9.6	9.0	0.0
Furniture and Appliance	131.1	12.0	13.7	0.4
Other	930.5	8.6	8.7	-0.8
Total	**5,119.5**	**13.4**	**9.4**	-

Source: Statistics Canada (CANSIM).

Tourism

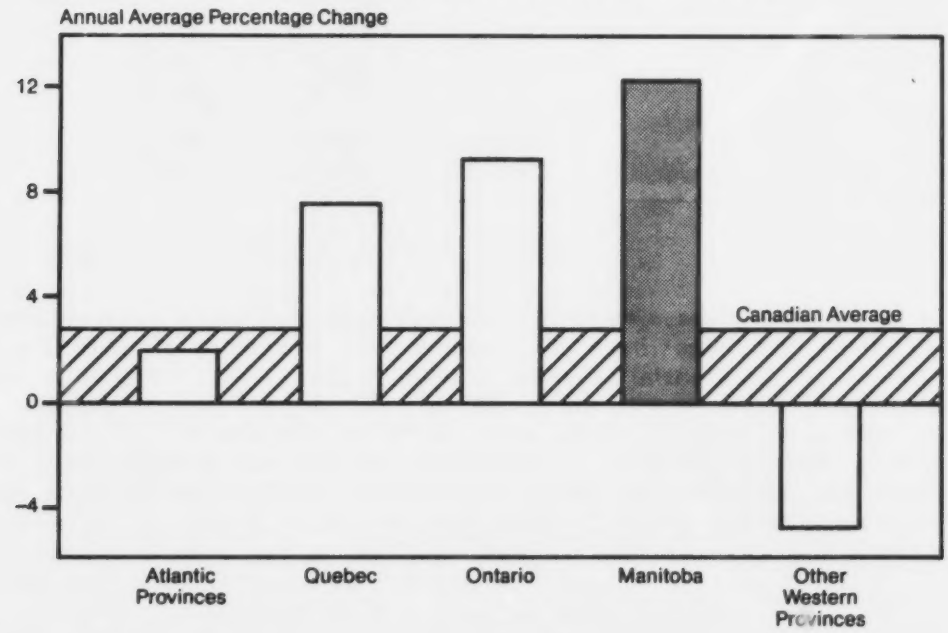
Manitoba, with its central geographical location and excellent resource base for year-round recreational activities, serves a substantial tourist market area. In 1985, tourism expenditure increased by 1.4% to $625.8 million. Increased spending by visitors from other parts of Canada and the United States offset reductions by overseas visitors and Manitobans. In total, it is estimated that Manitobans spent slightly less on tourism in the province in 1985 than in 1984.

Investment and Business Conditions

Capital investment has been a major contributor to economic growth and Manitoba's above-average economic performance over the past several years. Nowhere more so than in this area has the confidence of Manitobans, acting as individuals, business and government, been more evident. With the beginning of the recovery, capital spending increased by 11.7% in 1983, 16.2% in 1984 and 12.6% in 1985. According to Statistics Canada's Private and Public Investment Survey, capital investment in Manitoba is projected to exceed $3.1 billion in 1986, an increase of 8.9%, or almost double the national increase of 4.6%. Over the 1982 to 1986 period, Manitoba is projected to experience the fastest growth in capital investment among provinces.

Improvement in business conditions is also reflected in an increase in the number of business establishments in the province. In January, 1986, Statistics Canada's business register listed 40,961 Manitoba business establishments, an increase of

Capital Investment by Region, 1982 to 1986



Source: Statistics Canada.

3,510, or 9.3%, from January, 1985. Based on limited comparable historical data, it appears that this increase represents an acceleration in the rate of business formations over recent years.

The small business community plays a particularly important role in Manitoba, as establishments with less than 20 employees account for approximately 90% of all businesses. The latest employment data by firm size shows that firms with less than 20 employees in December, 1984, accounted for about 25% of all employees of business establishments. Evidence from many jurisdictions suggests that small business is the major source of new employment and plays a leading role in identifying and reaching new markets.

Public and Private Investment

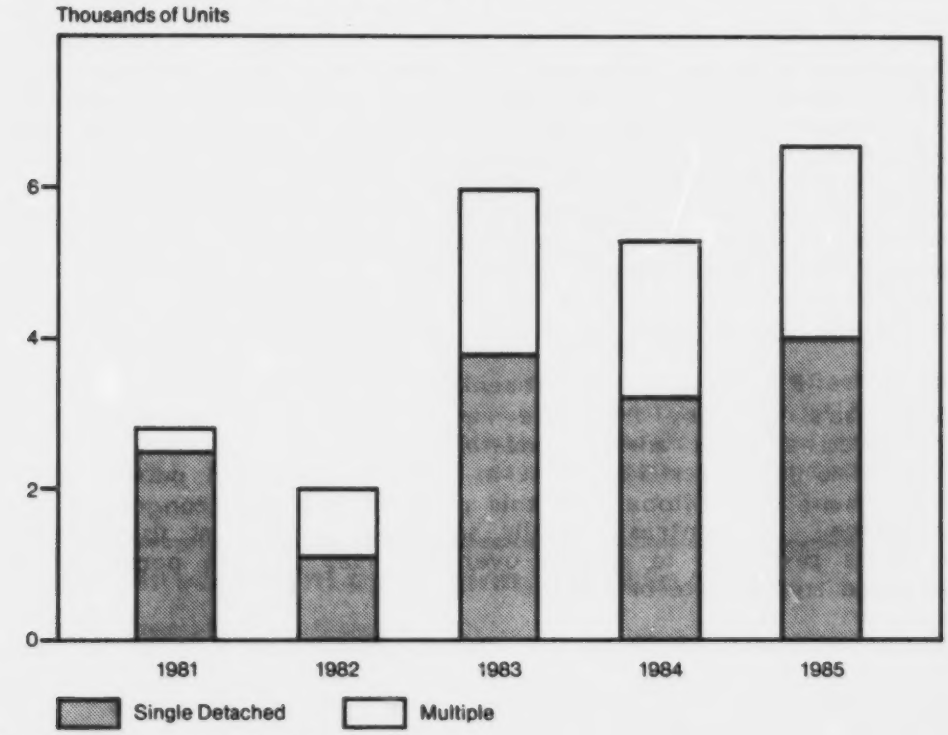
Public sector investment has played an important role in Manitoba's recovery from the recent recession, increasing at a projected average annual rate of 11.7% over the 1982 to 1986 period to just over $1 billion in 1986. Growth in public sector investment in Manitoba over this period has been strongest of any province. In contrast, public sector investment at the national level is projected to decline over the 1982 to 1986 period at an average annual rate of 2.6%.

Increases in public sector capital spending underscore not only the important role of social resources, but also the abundant economic opportunities available in Manitoba. For example, hydro-electric development builds on one of the province's major renewable natural resources, and the Churchill development builds on the natural advantage of the only major port facility on the Prairies.

Investment intentions provide an important barometer of current business conditions. Private sector capital investment in Manitoba is projected to have risen by almost $800 million between 1982 and 1986, to more than $2 billion, an average annual increase of 12.6% -- two and one-half times the national average and, along with Ontario and Quebec, the highest among provinces. Throughout the business sector, higher levels of investment activity have been recorded since the recession.

The strongest element of capital investment in the private sector has been residential construction. Stimulated by renewed growth in consumer demand and public sector initiatives, housebuilding activity more than tripled between 1982 and 1985, with housing starts in 1985 reaching a seven-year high of 6,557 units.

Housing Starts, 1981 to 1985



Source: Statistics Canada (CANSIM).

Manufacturing

In both 1984 and 1985, investment in the manufacturing sector increased sharply. Over the course of 1985, this increased investment activity was reflected in rising employment in manufacturing industries which totalled 63,000 in December, 1985, approximately 8,000 higher than in December, 1984.

The value of manufacturing shipments increased by 6.3% in 1985, to just over $5.6 billion. In volume terms, shipments increased by an estimated 3.4%, roughly the same rate as in 1984, and above the average for the last five years. In Canada, the value of manufacturing shipments increased by 7.1%, with the motor vehicle and parts industries providing particular stimulus. In Manitoba, performance varied considerably across its major manufacturing industries. Strongest growth in the value of

shipments was in the food, chemical, wood and non-metallic minerals industries, where growth of over 10% was recorded. The better performance in these areas mitigated weakness in the machinery and transportation equipment industries.

Real Estate Development

In 1985, a sharp increase in capital investment in the real estate sector was highlighted by expansions in several of Winnipeg's largest shopping malls as well as the initial construction phase of the North Portage Development. For 1986, building permits data and investment intentions both provide strong indications that the business sector remains positive about the future, as North Portage Development and several other projects enter their major construction year.

Resource Sector

Commodity price developments over the 1981 to 1985 period have created severe financial pressures in the resource sector. In agriculture, price declines for wheat, barley and flaxseed of 17% to 20% have been experienced, requiring strong increases in production and marketings to offset higher costs and maintain incomes. Canola prices increased sharply between 1981 and 1983, encouraging farmers to specialize in oilseed production. However, by 1985, prices declined to levels only slightly above those in 1981. Cattle and hog prices increased slightly over the 1981 to 1985 period, but by less than the rate of inflation.

In the minerals sector, metal prices have generally averaged lower since 1981. In 1985, nickel, copper and zinc prices averaged 17%, 19% and 10% lower, respectively, than in 1981. The metal mining industry has been able to achieve moderate increases in the value of production, despite lower price levels, by increasing output through productivity improvements. Petroleum was the only commodity which recorded a significant price increase. However, over the past six months, petroleum prices have fallen dramatically and, whereas in 1985 they averaged 83% above their 1981 level, currently they are 15% lower. Since the value of petroleum production is small in Manitoba, the province did not benefit as much from the sharp rise in energy prices as the other western provinces.

Agriculture

The value of agricultural production totalled almost $2.4 billion in 1985, an increase of 7.8%. Production volumes for all major crops in 1985 substantially exceeded their 1984 levels. Wheat production rose to 192.0 million bushels, eclipsing by 55 million bushels the previous record set in 1984. Production records were set for all of the main crops grown in Manitoba -- wheat, barley, flaxseed and canola -- with increases of 40%, 30%, 31% and 17%, respectively, over 1984 levels. However, unseasonably wet conditions resulted in delays in harvesting and lower quality grades for many crops. Livestock production advanced moderately in 1985 as small gains were recorded for both beef and hogs.

Over the 1981 to 1985 period, shifts in both international and domestic demand and supply conditions have influenced agricultural production patterns within the province. Between 1981 and 1985, wheat, oilseeds, livestock and other farm products have increased their share of the total value of agricultural production, while barley and other crops have accounted for a smaller portion of the total.

Value of Agricultural Production, 1981 to 1985

	1985		1981 to 1985	
	Millions of Dollars	Annual Percentage Change	Average Annual Percentage Change	Change in Percentage Share of Total
Wheat	697.9	22.7	5.6	+1.2
Oilseeds	333.8	3.8	18.6	+5.5
Barley	242.1	6.8	-2.5	-3.3
Other Crops	414.0	1.5	-2.3	-5.4
Cattle	241.9	0.6	6.0	+0.6
Hogs	192.1	0.4	8.6	+1.2
Dairy, Poultry and other Products	257.7	2.8	5.2	+0.2
Total	**2,379.5**	**7.8**	**4.6**	-

Source: Statistics Canada and Manitoba Department of Agriculture.

Farm cash receipts in Manitoba are estimated to have been $2,029.5 million in 1985, approximately 4.5% above the 1984 level. In Canada, meanwhile, there was a 1.4% decline. Livestock receipts increased by 5.5% to $719.6 million, while crop receipts increased by 4.2% to $1,272.7 million.

In 1985, the preliminary estimate of farm expenses, at $1,657.6 million, was 2.2% higher than in 1984. Declines in interest payments, rent, feed and depreciation costs partially offset increases in other farm expenses. As a result, realized net income increased to an estimated $389.3 million. However, the level of realized net income in 1985, before allowing for inflation, only approximated its 1975 level. With record production outpacing marketings, there was a $275.5 million increase in the value of farm inventories. Consequently, net farm income, which includes inventories, rose to an estimated $664.7 million.

Farm Financial Statistics, 1984 and 1985

	1984		1985p	
	Millions of Dollars	Annual Percentage Change	Millions of Dollars	Annual Percentage Change
Total Cash Receipts	1,942.7	12.4	2,029.5	4.5
Crops	1,220.9	12.5	1,272.7	4.2
Livestock	682.4	12.6	719.6	5.5
Other	39.4	6.2	37.2	-5.6
Income in Kind	19.3	0.0	17.4	-9.8
Realized Gross Income	1,962.0	12.3	2,046.9	4.3
Farm Expenses	1,622.1	6.2	1,657.6	2.2
Realized Net Income	**339.9**	-	**389.3**	-
Change in Inventories	18.3	-	275.5	-
Net Farm Income	**358.2**	-	**664.7**	-

p - preliminary

Source: Manitoba Bureau of Statistics.

Despite two years of record-setting production for many agricultural commodities and the improvement shown in the preliminary farm income estimates, a significant number of farmers continue to be in financial crisis. The effects of several years of high interest rates, rising production costs and falling commodity prices have left many producers with crippling high debt loads and an inability to sustain their operations out of current incomes. According to the 1984 Farm Survey co-ordinated by the Farm Credit Corporation, 20% of farmers were in severe financial difficulty. Across the Western provinces and Ontario, the one-third of farmers with the lowest equity levels in 1983 had capital borrowings which exceeded their capital investment. Although the situation was substantially worse in Alberta, in Manitoba, this group borrowed an average of $33,972, but invested an average of only $21,834 in capital assets. This means, on average, their incomes fell $12,000 short of their requirements for living expenses and to meet operating costs.

Minerals

Manitoba's mineral sector recorded its third year of recovery in 1985, as the value of mineral production increased by 2% to $833 million. The value of metal production increased marginally as a 5% increase in copper and a 17% increase in zinc

were largely offset by a 3% decline in nickel. The value of industrial mineral production was virtually unchanged from its 1984 level. The major area of growth in 1985 was mineral fuels, where the value of production increased by 7%, of which 4% was due to increased volume.

Petroleum drilling activity in 1985 set a 30-year record and, for the fourth consecutive year, exploration and development in the Manitoba oil industry reached levels of activity not seen since the oil boom of the 1950s. In 1985, the focus of drilling activity in Manitoba shifted to the Daly area where 122 wells were drilled. Drilling interest remained high elsewhere in the province, as 78 wells in the Waskada area and a further 38 wells, primarily in the Virden and Pierson areas, were drilled. Of the 268 wells drilled in 1985, 231 were completed as potential oil wells, resulting in an overall success rate of 86%.

Between 1981 and 1985, the prime growth area in the mineral sector was petroleum, where the volume of production increased by 52%. Petroleum's share of the total value of mining production increased from about 10% in 1981 to almost 22% in 1985. Zinc also increased its share of the total value of mining production from just over 7% to almost 10% over this period. While the value of production of both nickel and copper rose between 1981 and 1985, it was at a rate below growth in the sector as a whole. The value of industrial mineral production declined over the 1981 to 1985 period, as cement production decreased, offsetting increases in other industrial minerals.

Value of Mineral Production, 1981 to 1985

	1985		1981 to 1985	
	Millions of Dollars	Annual Percentage Change	Average Annual Percentage Change	Change in Percentage Share of Total
Nickel	266.6	-3.1	3.3	-3.6
Copper	134.0	4.9	2.0	-2.8
Zinc	80.4	16.9	14.2	+2.5
Other Metals	64.6	-6.7	-3.0	-3.3
Industrial Minerals	106.3	-0.3	-2.0	-4.7
Fuels	181.0	6.9	29.5	+11.9
Total	**832.9**	**2.0**	**4.8**	-

Source: Statistics Canada and Manitoba Department of Energy and Mines.

Hydro-electricity

In 1985, the total volume of hydro-electricity produced in Manitoba eclipsed the previous record set in 1983. Real hydro-electric output increased by about 7%, while the overall value of sales of electricity rose to an estimated $578.1 million, 8.6% higher than in 1984. The volume of sales for residential and farm use increased by 8.8%, while commercial and industrial users increased their demand by 3.4%.

Favourable water conditions in 1985 allowed for an 11.0% increase in export power sales, as volume increases were recorded in all of the province's export markets -- the United States, Ontario and Saskatchewan. While the Northern States power sale provided the impetus for the early start-up of Limestone construction in 1985, continued negotiations for export sales have resulted in three agreements which will help ensure the orderly long-term development of Manitoba's water resources.

For most classifications of customers, Manitoba Hydro continues to have among the lowest electricity rates in Canada. For example, a Winnipeg resident consuming 750 kWh in April, 1986 would have paid only $31.22, the lowest rate among the 12 largest surveyed cities in Canada. This rate compares favourably to $31.61 in Montreal, $39.97 in Calgary, $42.15 in Vancouver, $45.23 in Toronto and $56.44 in Halifax.

Outlook

In 1985, Manitoba recorded its third year of economic growth following the recession, with an improvement in real terms again above the national average. Output gains were shared broadly across all major sectors of the economy, and investment continued to boost economic activity throughout the province. Several production records were established in the agricultural sector, while housing starts rose to a seven-year high. Employment growth exceeded growth in the labour force and the unemployment rate declined for the second year in a row. The province's productive capacity was further increased by strong growth in private and public sector investment.

The pace of economic growth in Canada is expected to moderate to 3%-3.5% in 1986 and 1987 from the 4.5%-5% recorded in 1984 and 1985. Slower growth is expected in all major components of domestic demand as consumer spending is constrained by higher federal direct and indirect taxes; business non-residential investment is projected to decline; and government spending remains restrained. Stronger growth in the United States, however, could increase Canada's net exports by late 1986 and 1987.

Uncertainty regarding interest rates and commodity prices is likely to influence prospects for economic growth in Canada and the United States, as well as Manitoba. Continued volatility in interest rates adds an element of risk to both consumer and investor activity. High real interest rates reflect a monetary policy more concerned with exchange rates than getting the economy back on the path to full potential. Commodity prices, particularly those for grain, have declined appreciably since 1983, and have dampened prospects in the agricultural and resource sectors throughout western Canada.

It is currently expected that real growth in the Manitoba economy will match or exceed the 3%-3.5% expected for Canada in 1986. Employment and labour income growth in 1986 are expected to make further contributions to the security and quality of life in Manitoba. Capital investment in Manitoba is once again projected to record one of the strongest increases of any province and to further expand the productive capacity of the province. In this regard, both the Limestone Generating Station and North Portage Development are expected to report substantial increases in their capital spending, as each enters its first full year of construction.

Economic Statistics, Manitoba, 1981 to 1985

	1981	1982	1983	1984	1985p	Annual Percentage Change 1981	1982	1983	1984	1985p
GROSS PROVINCIAL PRODUCT: ($ millions)	13,170.0	14,010.0	15,190.0	16,840.0	18,100.0	16.7	6.4	8.4	10.9	7.5
SECTORAL INDICATORS:										
Agricultural Production ($ millions)	1,991.0	2,015.1	1,993.8	2,207.6	2,379.5	19.3	1.2	-1.1	10.7	7.8
Manufacturing Shipments ($ millions)	4,965.6	4,854.0	4,882.6	5,250.1	5,579.7	13.6	-2.2	0.6	7.5	6.3
Mineral Production ($ millions)	657.9	550.3	693.6	816.8	832.9	-19.8	-16.4	26.0	17.8	2.0
Electric Power Sales ($ millions)	397.5	440.6	476.4	532.5	578.1	-2.1	10.8	8.1	11.8	8.6
Housing Starts (Units)	2,824.0	2,030.0	5,985.0	5,308.0	6,557.0	8.7	-28.1	194.8	-11.3	23.5
Retail Trade ($ millions)	3,578.4	3,830.0	4,099.9	4,513.7	5,119.5	13.1	7.0	7.0	10.1	13.4
Gross Tourism Expenditures ($ millions)	587.1	584.5	592.1	616.8	625.2	13.8	-0.4	1.3	4.2	1.4
INCOMES:										
Farm Cash Receipts ($ millions)	1,658.9	1,672.0	1,764.6	1,942.7	2,029.5	12.0	0.8	5.5	10.1	4.5
Total Personal Income ($ millions)	11,260.0	12,497.0	13,183.0	14,500.0	15,700.0	21.6	11.0	5.5	10.0	8.3
Personal Disposable Income ($ millions)	9,573.0	10,581.0	11,068.0	12,250.0	13,300.0	21.3	10.5	4.6	10.7	8.6
Wages and Salaries ($ millions)	6,637.3	7,219.5	7,631.5	8,219.0	8,558.2	13.9	8.8	5.7	6.2	4.1
CAPITAL INVESTMENT:										
Total ($ millions)	2,276.3	1,954.9	2,184.4	2,538.0	2,857.3	12.5	-14.1	11.7	16.2	12.6
Private Sector ($ millions)	1,638.3	1,281.1	1,476.3	1,675.8	1,893.8	13.2	-21.8	15.2	13.5	13.0
Public Sector ($ millions)	638.0	673.8	708.1	862.2	963.5	10.7	5.6	5.1	21.8	11.7
POPULATION:										
June Estimates (thousands)	1,026.2	1,034.5	1,048.1	1,058.1	1,069.6	0.1	0.8	1.3	1.0	1.1
LABOUR MARKET:										
Labour Force (thousands)	490.0	496.0	508.0	515.0	523.0	1.2	1.2	2.4	1.4	1.6
Employment (thousands)	461.0	454.0	460.0	472.0	480.0	0.7	-1.5	1.3	2.6	1.7
Participation Rate (%)	64.8	64.9	65.6	65.7	65.8	-	-	-	-	-
Unemployment Rate (%)	5.9	8.5	9.4	8.3	8.1	-	-	-	-	-
CONSUMER PRICE INDEX:										
Winnipeg (1981 = 100)	100.0	108.8	116.1	120.3	125.3	11.1	8.8	6.7	3.6	4.2

p - preliminary

Source: Statistics Canada (CANSIM) and Manitoba Department of Finance.

Appendix C:

TAXATION ADJUSTMENTS AND OTHER INFORMATION

Appendix C:

TAXATION ADJUSTMENTS AND OTHER INFORMATION

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TAXATION ADJUSTMENTS

The purpose of this Appendix is to provide a general description of the tax and other revenue adjustments proposed in the 1986 Manitoba Budget. For more detailed information, the reader is advised to contact the offices listed or consult the appropriate tax legislation. Comparisons with other provinces cite information available on May 16, 1986.

CORPORATION TAX CHANGES (Revenue Impact: +$20.2 million)

The general **Corporation Capital Tax rate** will be increased from 0.2% to 0.3% effective for taxation years ending after June 30, 1986, raising $8.1 million. With this rate increase, Manitoba's new rate will be the same as the Ontario rate, and less than Quebec's rate of 0.48%, and Saskatchewan's rate of 0.5%.

In 1982, Manitoba increased the Small Business Corporation Capital Tax exemption from $750,000 to $1,000,000. Thus, all small businesses with capital under $1,000,000, all unincorporated enterprises, co-operatives, credit unions and caisses populaires continue to be exempt; only 4,000 out of about 40,000 corporations in Manitoba pay the tax.

The specia' **Corporation Capital Tax rate on banks** will be increased from 1.9% to 3.0% for taxation years ending after June 30, 1986. Comparable increases are also introduced for trust and loan companies, from 0.6% to 0.9%. These changes will increase revenue by $5.0 million.

Inquiries regarding the Corporation Capital Tax should be directed to:

Corporation Capital Tax Branch
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3761

The **Corporation Income Tax rate on large business** income will be increased from 16% to 17% effective January 1, 1986. At 17%, the large business rate will be the same as that currently in effect in Saskatchewan.

This change affects only those corporations with taxable income in excess of $200,000. Less than 15% of Manitoba's corporations will be affected.

For corporations with taxation years partly in 1985, taxable income will be prorated and the new general Corporation Income Tax rate applied on the basis of the number of days in the taxation year falling after December 31, 1985.

This change will raise $7.1 million in 1986/87.

The special Manitoba Corporation Income Tax rate on small business income will be maintained at the current rate of 10%.

The Corporation Income Tax change will be administered by Revenue Canada. Prior to June 30, 1986, inquiries may be directed to:

Federal-Provincial Relations Division
Department of Finance
Room 4, Legislative Building
Winnipeg, Manitoba
R3C 0V8
Telephone: (204) 945-3757

WATER POWER RENTAL RATES (Revenue Impact: +$15.0 million)

Water Power Rental rates will be increased by $7.00 per horsepower-year of output to $11.75 per horsepower-year. Installed capacity charges will be increased by $2.80 per installed horsepower to $4.70 per installed horsepower. These increases will bring Manitoba's effective rates into line with those of British Columbia and Ontario.

MOTIVE FUEL TAXES (Revenue Impact: +$9.1 million)

A Motive Fuel Tax of 7¢ per kilogram will be imposed on natural gas used in internal combustion engines, both on and off highway. This Tax will replace the tax currently levied on this product under the Revenue Act, 1964. This preferential tax rate is less than the general fuel tax rates applicable on other automotive fuels, on an energy-content equivalent basis. This measure will raise about $9.0 million in 1986/87.

The Motive Fuel Tax on propane will be increased 0.5¢ per litre to 5.3¢ per litre from 4.8¢ per litre. This change is expected to raise about $100,000 which will help defray the inspection costs of propane-powered vehicles.

These changes take effect June 1, 1986.

Inquiries regarding fuel taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3297

TOBACCO TAXES (Revenue Impact: +$20.5 million)

The Tobacco Tax rate will be increased from 3.1¢ per cigarette to 4.1¢ per cigarette effective midnight, June 15, 1986. Comparable increases will apply to other tobacco products. At the new rate, Manitoba's Tax will rank third among the provinces, compared with second highest last year.

Inquiries regarding tobacco taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3284

FEE INCREASES (Revenue Impact: +$5.0 million)

Various **Department of Highways fees** will be increased. Among the major increases are: driver's licence fees, increased by $2.00 from $5.00 to $7.00; written driver's test fees increased from $2.00 to $4.00; motor vehicle registration fees increase on average by $3.00; and personalized licence plates increase from $50.00 to $75.00. Other increases will be applied to road tests and over-dimension special permits. These increases will raise Department of Highways revenue by $3.8 million.

Community college fees will increase by 8%, raising $200,000. **Personal property registry fees** and **land titles registration fees** will be increased to generate approximately $800,000. **Vital Statistics fees** will increase from $8.00 to $10.00, raising additional revenue of $100,000.

LABOUR SPONSORED INVESTMENT PROGRAM

The Government of Manitoba endorses the creation of Labour Sponsored Investment Corporations, which would create and protect jobs in Manitoba in small and medium-size businesses.

The Department of Business Development and Tourism has consulted with labour organizations on a program which would provide federal and Manitoba tax credits of up to 40% of eligible investments, to preserve and create jobs. Details of the Program have not yet been finalized. Consultations will continue over the next few months, with a view to implementing a program for the 1987 taxation year.

For further information, interested parties may contact:

Small Business and Regional
Development Division
Department of Business Development
and Tourism
7th Floor, 155 Carlton Street
Winnipeg, Manitoba
R3C 3H8
Telephone: (204) 945-2425

ADJUSTMENTS FOR MANITOBA FARMERS

Under the **Manitoba Farm Fuel Tax Credit Program**, eligible farmers will claim Farm Fuel Tax Credits when filing their annual income tax returns. The Credit will be calculated as a percentage of farm fuel expenditures for the year. At the time the Manitoba Farm Fuel Tax Credit takes effect, coloured tax-exempt gasoline and motive fuel will be withdrawn from sale in Manitoba, and all gasoline and motive fuels will be taxed at the current "clear" fuel tax rates.

It should be noted that implementation of this important benefit for farmers is dependent on federal government agreement to its delivery through the income tax system. It is hoped that federal co-operation will be secured by June 30, 1986, to permit the benefit to appear on tax returns for the 1986 taxation year.

The **Farmers Capital Gains Tax Refund Program** has become redundant with the introduction of the lifetime $500,000 capital gains income deduction for the 1985 and subsequent taxation years. Accordingly, this Program will not apply to capital farm property disposed of after December 31, 1984.

However, capital gains reserves created on the disposition of eligible property during the term of the Program (1982 to 1984), and which are taxed in years after 1984, will continue to be eligible for the Program to the extent of the individual's unused lifetime exemption.

For further information in regard to these Programs, interested parties may contact:

Federal-Provincial Relations Division
Department of Finance
Room 4, Legislative Building
Winnipeg, Manitoba
R3C 0V8
Telephone: (204) 945-3757

Interprovincial Comparison of Major Levies

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
Personal Income (% of Basic Federal Tax)	60.0	52.5	56.5	58.0	**	50.0[a]	54.0[a]	50.0[a]	43.5	47.5[a]
Corporation Income (%)										
• Large	16.0	10.0	15.0	15.0	5.9	15.0	17.0	17.0	11.0	16.0
• Small	10.0	10.0	10.0	9.0	3.2	10.0	10.0	10.0	5.0	8.0
Sales (%)	12.0	10.0	10.0	11.0	9.0	7.0	6.0	5.0	-	7.0
Gasoline (¢/litre)	9.9	8.7	9.8	9.7	13.65	8.3	8.0[b]	-	-	8.56
Diesel Fuel (¢/litre)	13.3	10.9	9.7	10.0	12.45	9.9	9.2	-	-	9.00
Tobacco (¢/cigarette)	4.78[c]	1.50[c]	3.50	4.00	4.52	2.70[c]	4.10	4.08	1.48	3.44
Corporation Capital (%)	-	-	-	-	0.48	0.3	0.3	0.5	-	0.2
• Banks (%)	1.5	-	1.5	-	0.97	0.8	3.0	3.0	-	2.0
Employer Health/Education Levy (% of Compensation Paid)										
• $15,000	-	-	-	-	3.22	4.76[d]	1.5	-	2.24[d]	2.56[d]
• $20,000	-	-	-	-	3.22	3.57[d]	1.5	-	1.68[d]	1.92[d]

**The Quebec Personal Income Tax is levied directly against taxable income.

[a] These provinces impose surtaxes on higher income taxpayers. Saskatchewan also levies a 1.0% flat tax "net income."
[b] Manitoba levies a 0.9¢/litre surcharge on leaded fuel.
[c] These provinces also apply sales taxes to tobacco products.
[d] These provinces do not have employer levies per se. However, employers generally pay health/medicare premiums on behalf of employees. The rates shown reflect the family premium rates currently in effect.

Note: Rates shown reflect 1986 Budgets for all provinces, except Prince Edward Island which had not introduced its Budget by May 16, 1986.

MANITOBA TAX EXPENDITURE ACCOUNT

Tax expenditures are provisions built into the tax system which give preferences intended to encourage individuals or enterprises to complement governments' social and economic policy objectives. They may take the form of tax exemptions, deductions, deferrals, reduced tax rates, or tax credits. Consideration of governments' fiscal positions and the degree of public activity in the economy is incomplete without an account of tax expenditures.

The Manitoba Tax Expenditure Account provides estimates of the provincial tax expenditures for major items and categories of items. The estimates are calculated from tax collection and Statistics Canada data. They include figures for 1983 (the last year for which actual income tax data is available) and projections for 1986. A computer model was used to generate the income tax expenditure estimates. Some tax expenditures other than those listed could not be estimated because data is not presently available.

Manitoba Tax Expenditure Account

PERSONAL INCOME TAX	1983	1986
	($ millions)	
Deductions:		
- Contributions to:		
° Registered Pension Plans	26.3	32.9
° Registered Retirement Savings Plans	27.2	29.4
° Canada Pension Plan	11.5	15.5
- Employment expense deduction	23.1	25.1
- $1,000 investment income	23.6	24.8
- Unemployment insurance	14.0	19.5
- Charitable donations	12.8	18.2
- Other employment expenses	5.4	6.7
- $1,000 private pension income	5.2	5.5
- Union dues	4.7	5.4
- Spousal deductions transfers	3.3	3.6
- Contributions to Registered Home Ownership Plans	3.1	-
- Tuition fees	2.0	2.9
- Medical expenses	1.5	2.2
- $50 per month for education	1.2	1.3
Exemptions:		
- Spousal/equivalent exemption	35.8	38.2
- Children and other dependents	24.3	26.0
- Age exemption and disability deduction	22.1	27.0
- $500 of research grants, bursaries and scholarships	0.2	0.2
Exclusions:		
- Employee benefits	23.6	27.9
- Preferences for capital gains	13.5	26.1
- Life insurance/health benefits	17.8	21.4
- Veterans'/services' allowances and pensions	5.8	6.2
- Northern allowances	0.5	0.5
Tax Credits:		
- Dividend gross-up and tax credit	15.8	22.9
Other Provisions:		
- 5-year block averaging provision for farmers and fishermen	0.5	0.5

CORPORATION INCOME TAX	1983	1986
	($ millions)	
Deductions:		
- Small business deduction (lower tax rate)	10.4	14.4
- One-half taxation of capital gains	9.6	12.8
- Excess capital cost allowance over book depreciation	9.6	12.5
- Fast write-off of Canadian exploration and development expenses and depletion allowances	4.3	5.7
- Patronage dividends by Co-ops and Credit Unions	1.1	1.5
- Charitable donations	1.0	1.4
- Scientific research expenditures	1.0	1.3
Tax Credits:		
- Manitoba Manufacturing Investment Tax Credit	-	5.0

RETAIL SALES TAX		
Exemptions:		
- Food	66.0	89.6
- Personal services	15.9	18.3
- Farm machinery and repair parts	9.1	11.5
- Meals under $6.00 served in restaurants	7.4	10.5
- Agricultural feed and livestock	7.6	9.5
- Drugs and medicines	4.7	5.5
- Children's clothing and footwear	3.8	4.3
- Books, newspapers and periodical publications	3.3	4.1
- Medical supplies, appliances and equipment	3.1	3.7
- Public transportation (excluding air)	2.7	3.6
- Vehicle resale and mobile, ready-to-move and modular homes	2.1	3.1
- Thermal insulation materials and energy-saving devices	2.1	2.8
- Personal hygiene products	0.9	1.0

FUEL TAXES	1983	1986
	($ millions)	
Exemptions:		
- Marked gasoline and motive fuel	30.9	33.8
Taxed at Lower Rates:		
- Clear diesel for use in locomotives	6.6	-
- Marked diesel fuel for off-highway use	1.4	1.6
- Gasohol	1.6	1.5
LEVY FOR HEALTH AND POST-SECONDARY EDUCATION		
Exemptions/Reductions:		
- Employers with payrolls under $50,000/$75,000	-	7.0
CORPORATION CAPITAL TAX		
Exemptions:		
- Corporations with taxable capital less than $1,000,000	7.5	13.0
- Some Crown Corporations	6.0	10.5
- Credit Unions and Caisses Populaires	2.6	4.9
- Co-ops	2.2	3.9
- Family farm corporations	0.3	0.6

Appendix D:

FINANCING HEALTH AND HIGHER EDUCATION IN CANADA: Manitoba Examines the Issues

Appendix D:

FINANCING HEALTH AND HIGHER EDUCATION IN CANADA: Manitoba Examines the Issues

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FINANCING HEALTH AND HIGHER EDUCATION IN CANADA: Manitoba Examines the Issues

A NATIONAL COMMITMENT TO HEALTH CARE AND HIGHER EDUCATION

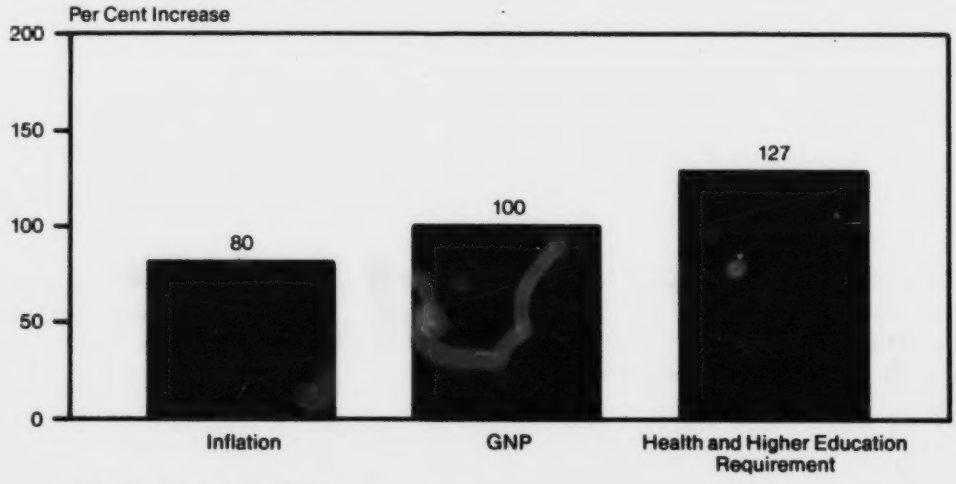
Canada has developed a unique and effective delivery system for health and higher education programs. A partnership has been formed between two levels of government. Reflecting both the major commitment of the federal government and the constitutional jurisdiction of the provinces, this partnership has aimed at lessening regional disparities, correcting the constitutional balance between federal and provincial responsibilities, and providing revenue from both levels of government.

Our health and higher education services evolved only as a result of a strong commitment by provincial and federal governments. Universally accessible and of high quality, they are now cornerstones of the security and opportunity available to all Canadians. They are recognized by ordinary Canadians as cherished rights, to be preserved, protected and enhanced by the governments which created them.

RISING REQUIREMENTS

During the period 1977/78 through 1984/85, health and higher education requirements grew at an average annual rate of 5.8% above inflation and 3.5% above the rate of growth in the economy as measured by Gross National Product (GNP).

Health and Higher Education Requirement, 1977/78 to 1984/85



Source: Manitoba Department of Finance
Statistics Canada

In future, the resources required for these services will reflect driving factors of demographics and technology. The ageing of the population and the cost of applying advanced technology will increase health costs at a rate of 2% above nominal economic growth for the next decade, according to the Conference Board.

Growth in Canadian Population Over Age 65

Year	65+ Population ('000)	Average Annual Growth Rate %	Percentage Growth Over Period %	Share of Population %
1981	2,361	3.1	-	9.7
1990	3,086	3.0	30.7	11.6
2000	3,831	2.2	24.1	13.5
2010	4,449	1.5	16.1	15.1
2020	5,733	2.6	28.9	19.1
2030	7,064	2.1	23.2	23.7

Sources: Statistics Canada, Historical Statistical Compendium, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Ottawa: Statistics Canada, 1985), Table 1.7, and Population Projections for Canada and Territories 1984 to 2006 (Ottawa: Minister of Supply and Services Canada, Forthcoming), Projections Series Number 1.

Medium Fertilty. Low Immigration Scenario – Table 7-32.

Contrary to many expectations, enrolment in post-secondary education has not diminished or even peaked. Both full- and part-time students attend in record numbers, and quotas are increasingly being used to cope with enrolment pressure.

Post-Secondary Enrolment, Canada

	University		Community College
	Full-Time	Part-Time	Full-Time
1982/83	426,389	266,380	295,586
1983/84	450,531	278,700	313,364
1984/85	460,810	276,390	317,020

Note: Table does not include Senior Matriculation Enrolment which is included in EPF definitions of post-secondary education.

Sources: Statistics Canada, Education in Canada, Cat. 81-229 for 1982/83 and 1983/84 and Advance Statistics of Education, Cat. 81-220 for 1984/85.

Canada's public health programs now provide high-quality services more efficiently than the mixed public/private care system which exists in the United States. The share of our Gross National Product which we devote to health care expenditure is about 20% less, and our programs cover all of our citizens equally. Over 35 million Americans, lacking health insurance, are restricted in the health care they can access.

If, over concern for immediate financial costs, sick people do not seek medical advice, effects of their illness can be magnified and take an even heavier toll on them, on their families and on society as a whole. Illness reduces productivity. Illness not treated at an early stage can complicate treatment later.

Under Medicare, the economic security of Canadian families is not greatly threatened by illness. For many Americans, illness and high treatment costs can often mean financial hardship for the entire family.

THE IMPACT OF TECHNOLOGY

New technology is making its presence felt not only in health care. In the workplace and at home, people around the world are taking advantage of the technological revolution. Increasingly, technology expands our ability to treat illness. Whether for diagnosis or for treatment, health care professionals rely on expensive and advanced technological equipment.

Canadians must have up-to-date opportunities for training and for retraining if they are to be equipped to compete in the new age of technology. Neither demands on post-secondary institutions for appropriate and costly education and training, nor the demand for technological hardware itself, are likely to diminish. Manitoba believes education and training are a sound investment in our youth and others.

EXPENDITURE REQUIREMENTS AND RESOURCE CONSTRAINTS

Needs and demands for health and higher education services are clearly felt. Yet, it is also clear that we are constrained in responding. The total economic pie, or Gross National Product, suffered from the severe recession of the early 1980s, and in spite of reasonable growth in the last few years, is not likely to show long-term growth in line with the previous post-war period. The recession has left its marks, including increased deficits and painfully-slow progress in reducing unemployment. Deficits dampen the ability of governments to respond to current needs. Governments are under pressure to reduce their "take" from the national economy, while at the same time, the demands for services in health and education suggest that these programs require an increased share of our national effort.

Most forecasters, including, for example, the Conference Board, the Canadian Medical Association and the federal government's Task Force on Program Review, project that the requirement for service expansion in health and higher education will continue. In turn, this will be translated into an increasing proportion of our Gross National Product being devoted to these services. In line with these forecasts, the growth rate of programs is projected at GNP plus 2% annually. Given current federal government projections for inflation and the economy, this means that over $56 billion will be devoted to these services in 1990/91, versus $37 billion in 1985/86, and $15 billion in 1977/78.

SOURCES OF REVENUE — 1977/78 THROUGH 1984/85 — A DECLINING FEDERAL SHARE

Under the Established Programs Financing Arrangements, the federal Departments of Health and Welfare and of the Secretary of State make cash payments to the provinces out of federal budgetary appropriations. As shown in the graph on page 6 (with detail appended on pages 16 and 17) these totalled $3.8 billion in 1977/78 and covered just over

one-quarter (26%) of health and higher education requirements. By 1984/85, these cash payments had risen to $8.2 billion, but this increase failed to keep pace with program and service requirements, and provided only 24% of total financing.

Under earlier federal-provincial arrangements and extended by the EPF arrangements of 1977/78, the federal government has ceased to levy, and the provincial governments have added to their taxes, 13.5 personal tax points and one corporate income tax point.[1] These "tax transfers" from the federal government, now raised by provincial governments, are included for equalization in similar fashion to the equalization of other provincial revenues.

The value of the tax points, including the associated equalization, was $3.3 billion in 1977/78, and $6.4 billion in 1984/85. The share of health and higher education financed by these tax points dropped from 22% in 1977/78, to 19% in 1984/85.

The federal government adds the value of the equalized tax points to federal cash transfers to derive a total for federal EPF funding. Under that scenario, the total federal transfer rose from 48% of program requirements in 1977/78, to 50% in 1979/80, and then dropped to 43% in 1984/85.

However, the taxes "transferred" in 1977/78 are in fact levied by provinces and now are identified in the public's mind as provincial taxes. In Manitoba, the provincial income tax rate of 54% of basic federal tax includes the tax transfer. The budgetary figure for the federal government is simply the "cash" payment.

Hence, provincial taxpayers financed the majority of health and post-secondary education spending. In addition to the tax points contributed as noted above, the primary source of this funding is general revenues of the provinces supplemented by local government contributions and institutional own-source revenues such as tuition fees. The total of this additional funding provided 52% of programs financing in 1977/78, dropped to 50% in 1979/80, and then rose to 57% in 1984/85. The dollar value was $7.8 billion in 1977/78, and $19.3 billion in 1984/85.

The total from provincial taxpayers was $25.6 billion or 76%, versus 24% from the federal Budget in 1984/85.

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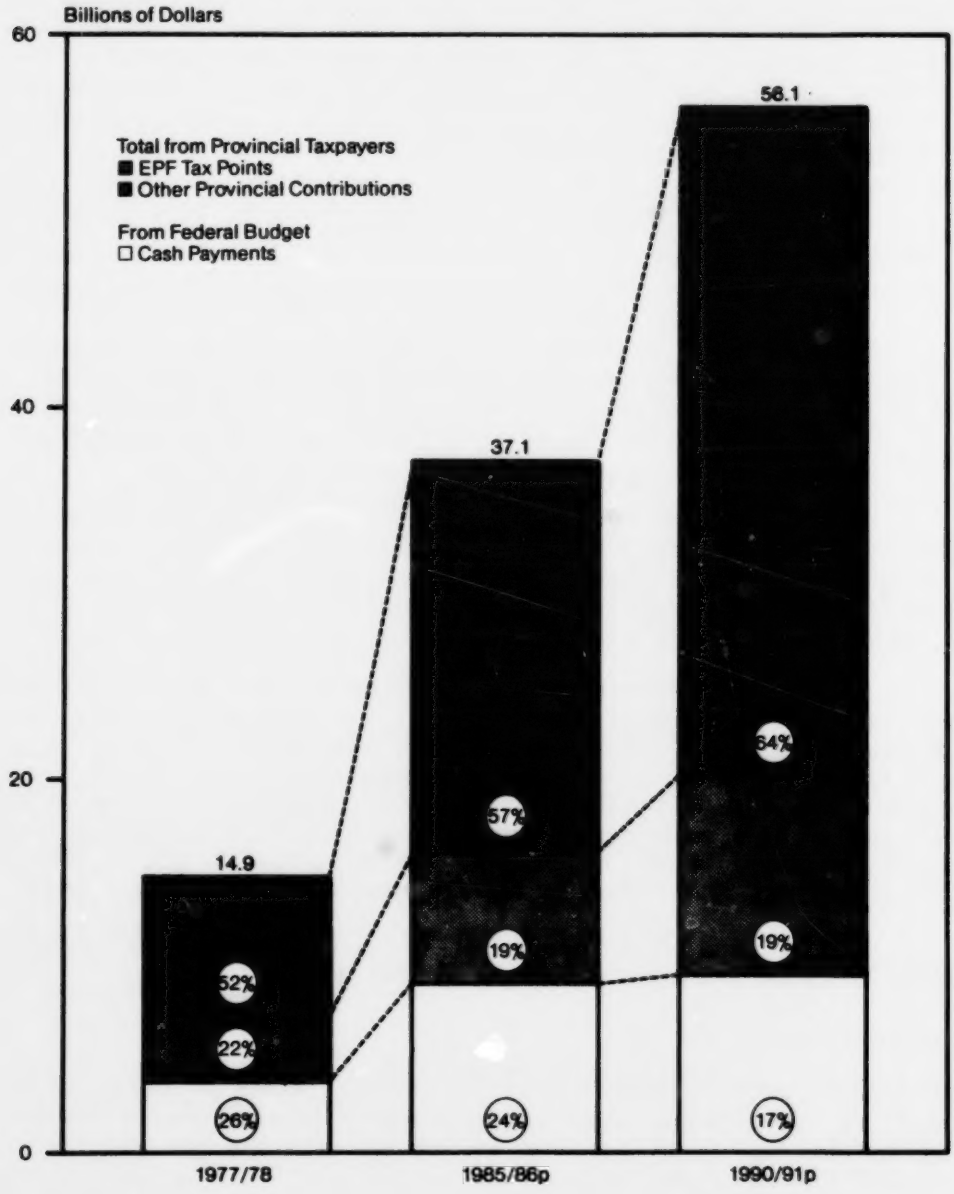
[1] The total transfer covers 13.5 percentage points of personal income tax and one percentage point of corporation income tax. However, 4.357 percentage points of personal income tax and the one point of corporate income tax had been transferred earlier (in 1967) as part of the former post-secondary financing arrangements. Consequently, the net new transfer involved only 9.143 points of personal income tax.

Financing Health and Higher Education, Canada, 1977/78 to 1990/91
By Source



p—projected

Source: Federal Department of Finance
Manitoba Department of Finance
The Conference Board in Canada

SOURCES OF REVENUE PROJECTED — 1985/86 THROUGH 1990/91 — FEDERAL CUTBACKS PLACE SERVICES AT RISK

The most recent projections provided to provinces with the February, 1986 Budget incorporate **the federal government plans to slash $2 billion from federal health and higher education transfers annually by 1990/91. Bill C-96 to effect the cuts is now before Parliament.**

The forecasts show federal cash transfers growing very slowly over the next five years -- from $8.8 billion in 1985/86, to only $9.8 billion in 1990/91. The growth rate is 2% annually, slower than the rate of inflation, and very much slower than the rate of growth of the economy. In comparison with the projected $19 billion increase in costs of maintaining services, the $1 billion increase provides less than 5%. The **share** of financing provided by the federal budget plunges **from 24% in 1985/86, to 17% in 1990/91.**

The value of 13.5 personal income tax points, and one corporate income tax point (equalized) is projected to rise from $7.0 billion in 1985/86 to $10.9 billion in 1990/91, a percentage increase roughly in keeping with costs.

In the face of the miniscule rise in federal cash payments, it is not surprising that the federal government wishes to focus only on presentations which incorporate the tax points (one-quarter of provincial personal income tax revenue) as a federal contribution. However, even with this addition, federal arithmetic would show contributions at a rate 2% below the rate of growth in the economy, while costs are projected to increase by 2% above the rate of GNP growth. The drop in the **federal share** under this formulation mirrors the plunge in the proportion provided by the cash transfers, dropping **from 43% in 1985/86 to the 36%-37% range in 1990/91.**

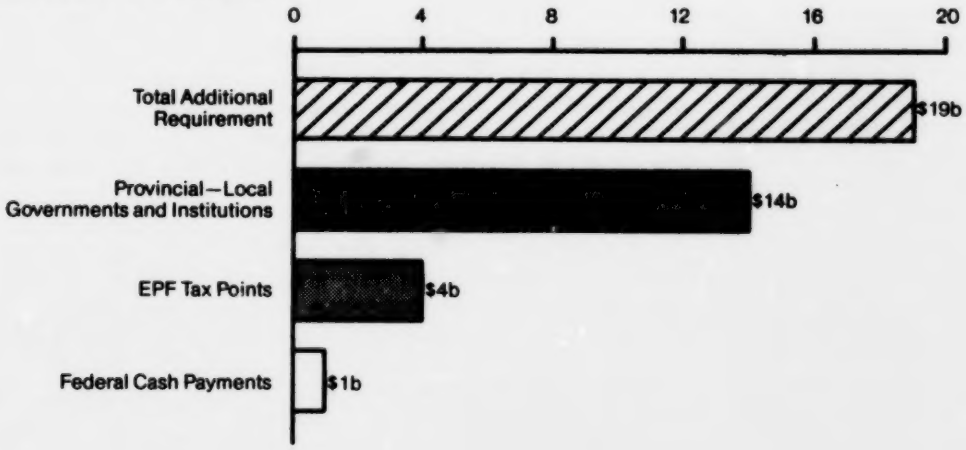
If the health and post-secondary education needs of Canadians are to be met with full access to programs of the quality we enjoy today, provincial taxpayers will be called upon to provide $18 billion more in 1990/91 ($46 billion versus $28 billion in 1985/86).

Of the $19 billion additional funding required by 1990/91, only $1 billion will be forthcoming from the federal Treasury.

Adding the increase in the tax points to the $1 billion increase in the cash transfer provides a total of $4.9 billion or about one-quarter of the projected increase in total requirements.

Increased Health and Higher Education Requirements, 1985/86 to 1990/91

Sources of Funding



Source: Federal Department of Finance
Manitoba Department of Finance

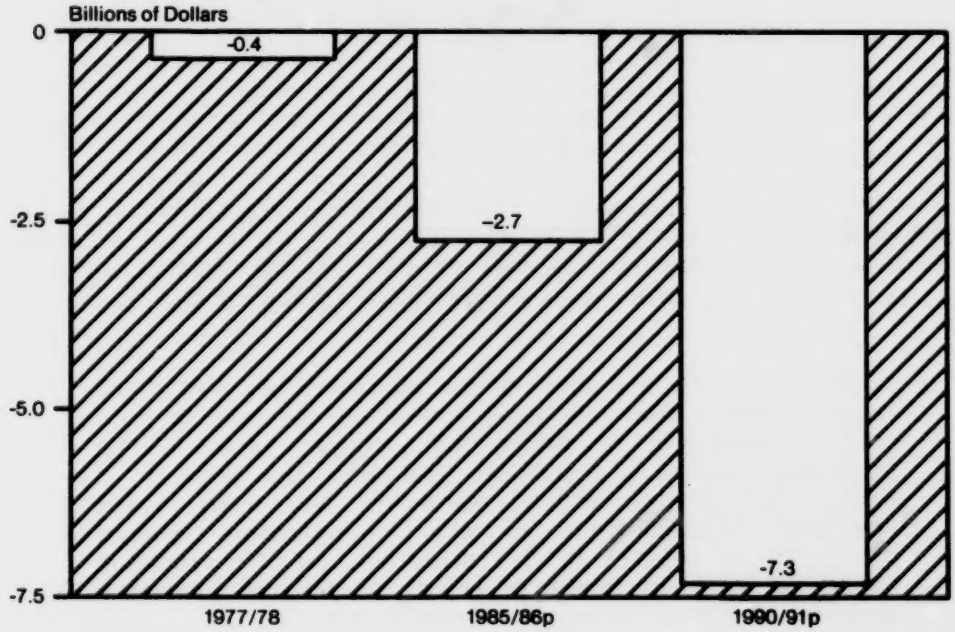
There is serious concern that provinces, especially the poorer provinces, will not be able to meet these funding requirements. Thus, unless the deleterious effects of Bill C-96 are reversed, both service quality and universality are at risk.

WILL SERVICES SURVIVE IN POORER PROVINCES?

Provinces currently devote about 28% of their total provincial program expenditures ($27 billion) to health care, with a further 7% ($7 billion) devoted to higher education. Thus, over 35% of provincial program expenditures are for health and higher education.

Since the beginning of the decade, provinces have shouldered not only their own share of the increasing cost, but an additional $2.8 billion which represents the shortfall of federal funding from a 50% share. As noted earlier, federal transfers under Bill C-96 will not keep pace with projected expenditure requirements. By 1990/91, the shortfall in federal funding will increase to $7.3 billion.

Shortfall from 50-50 Funding
Federal Cash Payments plus EPF Tax Points



p—projected

Source: Federal Department of Finance
Manitoba Department of Finance

For Manitoba, that shortfall translates into about $300 million annually. That amount in program terms means:

- the entire expenditure on universities and community colleges;
- the budget of all hospitals in Manitoba except for St. Boniface and the Health Sciences Centre; or
- more than the total combined salaries of all doctors or all nursing homes and Pharmacare costs in Manitoba.

For other provinces, the shortfall is of a similar magnitude. What will provinces do in such circumstances?

The Government of Newfoundland and Labrador recently issued "A Green Paper on Our Health Care System Expenditures and Funding." In it they outlined the options available to them:

- privatization, in whole or in part, of the health care system;
- changes (cutbacks) in health care expenditures beyond those already implemented;
- deficit financing; and
- tax changes.

The federal government Task Force on Expenditure Review is more definitive in its view of what will transpire if the federal funding cuts proceed. In addition to noting that "there are no compelling program reasons to reduce transfer payments," the Review Team noted in its Report:

> "Cost escalation is a concern for all provinces and there is no evidence that any jurisdiction will be able to hold cost increases at or below the inflation rates in the forseeable future. Provinces feel that the impacts of aging, technology, medical manpower and usage rates are and will continue to exert substantial upward pressures on costs. In this situation, **an EPF escalator based on GNP is likely to result in federal payments growing at a rate slower than health costs.**
>
> "Reductions in federal funding under EPF will, for the provinces, result in one or more of the following:
>
> - transfer of health costs to individuals (within the limits of the Canada Health Act);
> - increased taxes at provincial levels;

- reduction in services and/or quality of health care services;

- reduction in provincial programs in areas other than health care."[2]

The impact of the federal cutbacks will be felt first and most severely in the equalization-recipient provinces. The Equalization Program already leaves the recipient provinces with a fiscal capacity which is $217 per capita below the all-province average. Therefore, service provision is already under severe cost-containment pressure in these provinces -- before taking account of the added fiscal responsibilities they are being asked to bear by the federal government.

The alternative means of coping with their share of the acknowledged increased resource requirements are all less palatable in the poorer provinces.

For example, a basket of across-the-board tax increases in the equalization-recipient provinces would generate from 60% (in Newfoundland) to 80% (in Manitoba) of what they would raise nationally. Public debt is higher and credit ratings are lower in the equalization-recipient provinces, making further increases in deficit financing less attractive. As noted, the full range of provincial services are under greater cost- containment pressures, and, therefore, reductions in other services in order to finance health and higher education increases are less feasible.

Therefore, reductions in service quantity and quality and transfer of costs to individuals through fees or privatization loom larger. **These are threats to the basic tenets of our public systems of health care and of higher education.**

---

[2] Health and Sport Volume -- Study Team Report to the Task Force on Program Review, page 90.

THE POSITION OF THE GOVERNMENT OF MANITOBA

In a series of statements, papers and submissions, the Government has stated:

1. That the quality and accessibility of public health and higher education programs must be preserved.

2. It would damage principles of universal access, and it would be more costly, if Canadians had to turn to private delivery for some services. The Government of Manitoba wants Medicare for all, not private care for the privileged few. Public institutions must fill most of the need for higher education and training.

3. To maintain the quality and accessibility of services in the face of increasing needs, the federal government must reassert itself as a full partner, and federal funding must increase in response to needs and demands.

The Government of Manitoba has received broad and enthusiastic support for these positions from organizations and individual citizens in Manitoba. The Manitoba Coalition on Health and Higher Education, composed of health organizations, university administration, faculty and students, labour groups and others, representing in all 34 organizations and over 250,000 Manitobans, has been formed to fight for fair federal funding to protect these important services.

OTHER PROVINCIAL STATEMENTS

Other provincial governments are also speaking out:

> "The Government of New Brunswick has objected in the strongest terms to the long standing federal strategy of leaving provinces with more and more of the responsibility for funding health and education programs. Federal participation in the financing is essential because most provinces do not have the resources to pay for these programs themselves." (New Brunswick Budget, 1986, p. 6)

The 1986 Quebec Budget details not only the cuts which result from passage of Bill C-96, but also the cuts which have been made in federal financing for health and higher education since 1982. In doing so, it quotes the current federal Minister of Finance who said in 1982:

> "The only sign it (the federal government) shows of cutting spending is by shifting the burden of the established programs funding onto the provincial governments. The provinces are now moving into a

> deficit position, a position which will make it more difficult for them to finance this shift in spending .... That is not cooperative federalism. That is predatory federalism and it will not and cannot work in this country." (Michael Wilson, House of Commons Debates, March 23, 1982)

With regard to the consequences of the reduction in federal transfers, the Quebec Budget states:

> "Government spending is increasingly being squeezed in a vice. Health costs are growing rapidly because the population is aging and because of the introduction of new medical technologies, while the federal government is avoiding its financial responsibilities in this sector." (Quebec Budget, 1986/87, p. 12-13)

Premiers, Health Ministers and Eduction Ministers of all provinces have produced joint statements opposing the cuts.

SUMMARY

Federal forecasts show that the federal cash transfers for the five-year period 1986/87 through 1990/91 will total $47 billion compared with $37 billion in the previous five years. The value of the tax points will be $46 billion over the next five years compared with $31 billion in the previous period. (See Table appended).

Though these numbers permit the federal government to assert EPF cash and tax will total $93 billion, **up $25 billion** from the last five years, such comparisons are deceitful. The increases are largely reflections of the high rates of inflation during the early 1980s. In addition, the costs of providing more people with health and higher education are estimated at $240 billion over the next five years, **up $83 billion** from the $157 billion total in the previous five years. **Requirements of $83 billion matched against federal cash of $10 billion and tax points of $15 billion show the true picture.**

Thus, the damaging implications of the federal position become clear. As stated earlier, the federal government, after the cutbacks proposed in Bill C-96, would provide only an additional $1 billion on an annual basis in 1990/91. Health and post-secondary education spending is projected to rise by $19 billion by then.

And, federal revenue is projected by them to rise by $35 billion.

CONCLUSION

We believe the federal government can and should provide a fair share of resources for these services. For example, Ottawa has found:

- more than $1 billion for bank bail outs;
- more than $2 billion in capital gains and other tax breaks favouring the wealthy;
- more than $1.6 billion in corporation income tax rate reductions;
- another $3.3 billion to increase defence spending by 35% to $12.6 billion by 1990/91.

The federal government either places an extremely low priority on health and higher education services, or it believes it can transfer a major portion of its projected deficit onto provincial governments. That is, of course, in complete contradiction to stated federal intentions, but is the pragmatic result if they proceed with cuts while provinces maintain services.

The Manitoba Government will work with the concerned citizens of this province in presenting an effective case against federal cutbacks to Canadians and to Parliamentarians throughout our nation. The security and opportunity afforded Canadians through their public health and higher education programs must not be slowly strangled by cutbacks in federal support. These hard-won rights of the Canadian people must be respected. We will continue our efforts until the fiscal threat to these programs is removed, fair federal funding secured, and the future of health and higher education is no longer at risk.

Financing Health and Higher Education Programs Canada, 1977/78 to 1990/91

By Source of Revenue

($ billions)

		1977/78	1981/82	1982/83	1983/84	1984/85	1985/86	FIVE-YEAR TOTAL 1981/82 TO 1985/86
1	Total Provincial-Local Government Health and Institutional Post-Secondary Education Requirements	**14,943**	**25,139**	**29,026**	**31,744**	**33,855**	**37,100**	**156,864**
	FEDERAL BUDGET							
2	Cash Transfer	**3,818**	**6,113**	**6,449**	**7,549**	**8,209**	**8,802**	**37,122**
3	(% share)	**26**	**24**	**22**	**24**	**24**	**24**	**24**
	PROVINCIAL TAXPAYERS							
4	Value of Tax Points[a]	3,297	5,664	5,950	6,021	6,380	6,962	30,977
5	(% share)	22	23	21	19	19	19	20
6	Other Contributions[b]	7,828	13,362	16,627	18,174	19,266	21,336	88,765
7	(% share)	52	53	57	57	57	57	56
8	**Total Provincial**	**11,125**	**19,026**	**22,577**	**24,195**	**25,646**	**28,298**	**119,742**
9	**(% share)**	**74**	**76**	**78**	**76**	**76**	**76**	**76**

		1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	FIVE-YEAR TOTAL 1986/87 TO 1990/91
	Total Provincial-Local Government Health and Institutional							
1	Post-Secondary Education Requirements[c]	**37,100**	**40,300**	**43,800**	**47,600**	**51,700**	**56,100**	**239,500**
	FEDERAL BUDGET							
2	Cash Transfer[d]	**8,802**	**9,045**	**9,219**	**9,381**	**9,533**	**9,757**	**46,935**
3	(% share)	**24**	**22**	**21**	**20**	**18**	**17**	**20**
	PROVINCIAL TAXPAYERS							
4	Value of Tax Points[a]	6,962	7,684	8,481	9,299	10,143	10,928	46,535
5	(% share)	19	19	19	20	20	19	19
6	Other Contributions[b]	21,336	23,571	26,100	28,920	32,024	35,415	146,030
7	(% share)	57	58	60	61	62	63	61
8	**Total Provincial**	**28,298**	**31,255**	**34,581**	**38,219**	**42,167**	**46,343**	**192,565**
9	**(% share)**	**76**	**78**	**79**	**80**	**82**	**83**	**80**

a Tax points transferred to provinces in 1977/78 are included in provincial tax rates payable by provincial taxpayers. The figures include equalization payable on those provincial taxes.
b Primarily Provincial General Revenues and including Local Government and Institutional Own-Source Revenues.
c Assumes GNP growth of 7.6% in 1985/86 and an average of 6.6% thereafter and expenditure growth of GNP plus 2%. (Based on Conference Board report suggesting health costs in United States will rise from 10% of GNP in 1980 to 12% in 1990; i.e., growth in economy plus 2% annually.)
d Federal Department of Finance, February 25, 1986 – after cuts – GNP minus 2% proposal.

Sources: Federal Department of Finance,
Manitoba Department of Finance (1986/87 to 1990/91 Projected),
Interprovincial Committee on EPF Data.

Appendix E:

RECENT STATEMENTS ON FEDERAL-PROVINCIAL RELATIONS AND TAX REFORM

Appendix E:

RECENT STATEMENTS ON FEDERAL-PROVINCIAL RELATIONS AND TAX REFORM

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Western Premiers' Conference

Communiqué #6:

FEDERAL-PROVINCIAL CO-OPERATION

Grande Prairie, Alberta, May 13-15, 1985

Western Premiers agreed today that a high degree of prior consultation among the federal and provincial governments is necessary in order to ensure that discussions at the Annual First Ministers' Conference in November are productive. The important role that First Ministers' Conferences play in shaping national policy necessitates thorough pre-conference discussions. To ensure a successful conference, Western Premiers proposed that each government appoint a team of ministers to coordinate preparations.

Recognizing that federal and provincial governments serve the same taxpayers, the Western Premiers stressed that the federal government must not shift its deficit to the provinces through reductions in federal transfer payments.

They reaffirmed that Established Programs Financing is a block-funding arrangement for both health and post-secondary education. They rejected any attempt, as in the "Johnson Report" recently released by the federal government, to focus on artificially defined federal contributions to post-secondary education. The increasing provincial cost of maintaining health services makes this arbitrary separation even less tenable.

The Premiers recognized the need for federal and provincial governments to work cooperatively to ensure the stability, predictability and adequacy of federal contributions to health and post-secondary education programming. The review of Established Programs Financing, including any discussions on post-secondary education and health care, should be coordinated by federal and provincial Treasurers and Ministers of Finance.

The Premiers committed themselves to building upon the spirit of cooperation demonstrated at the February First Ministers' Conference in Regina.

Twenty-Sixth Annual Conference of Premiers

Communiqué on

FEDERAL-PROVINCIAL FISCAL RELATIONS

St. Johns, Newfoundland, August 21, 1985

The ten provincial Premiers rejected the proposal in the May Federal Budget to cut federal support for health and post-secondary education and national equalization by some $2 billion annually by 1990. They agreed that attempts to shift the federal deficit on to the backs of the people will not help the Canadian economy. Both orders of government serve the same taxpayers and offloading responsibilities and costs from one order to the other will not help in meeting service needs.

They noted the projected increasing demands on the health care system as the proportion of elderly Canadians continues to increase in coming decades and the increased pressure on our post-secondary education system for improved education and increased skills. Federal and provincial governments must work cooperatively and effectively to ensure these needs are met.

The federal government has an important role to play, through the Established Programs Financing arrangements, in sustaining health and post-secondary service throughout the country. Federal cutbacks, as proposed in the May Budget, are clearly inconsistent with maintaining present levels of service, let alone meeting projected needs.

The Premiers also recognize the importance of these and other federal transfers as well as direct federal activity to sustaining their shared goal of fair and balanced regional development.

The National Equalization Program is of fundamental importance to Canadian Confederation. Premiers stressed the urgent need to place equalization on a sound foundation. This is essential to fulfill the constitutionally enshrined objective of the program.

The Premiers suggested that Finance Ministers should coordinate the federal-provincial review of these arrangements. They noted that federal and provincial Finance Ministers will be meeting to discuss the federal cutback threat in September. The Premiers requested their Finance Ministers to report to them on the results of that meeting prior to the Halifax First Ministers' Conference.

Honourable Howard Pawley
Premier of Manitoba

Notes for a Statement on
FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS
to the Conference of First Ministers

Halifax, Nova Scotia, November 28-29, 1985

INTRODUCTION: Outline of Issues

Prime Minister:

You and your government have consistently emphasized the need for federal-provincial co-operation in relation to the host of issues of mutual concern to our several governments and to all Canadians.

We welcome these affirmations of the importance of renewed co-operative federalism. Nowhere will that commitment be more appropriate or more tested than in our discussions of support for health and higher education and equalization, and fair taxation. These issues profoundly affect all Canadians and all governments.

In that regard, it is worthwhile to examine our experience in Manitoba. From 1977 to 1981, Manitoba had a Provincial Government committed to the view that smaller government with less public services was what our province needed. That administration had the view that if it pulled back, the private sector would become more active, energize the economy and assure unparallelled progress.

The results were disastrous. Manitoba was at or near the bottom on virtually all major economic indicators—employment, investment, housing starts, retail sales, personal income, etc. Our quality of life suffered as public services were permitted to deteriorate. And many of our young people were left with no option but to leave home in search of opportunities elsewhere.

Since our election in late 1981, our New Democratic Government in Manitoba has worked with people and businesses to rebuild our economy and to rebuild public services. There is, I am happy to report, ample evidence to show that these co-operative efforts are succeeding.

Our Province has the best investment record in the country over the past three years. We have one of the best job creation records in the country, and our people are coming back home.

The Manitoba experience has clearly shown that there is no conflict between social development and economic development. They must go hand in hand. Indeed, reduced commitments to social development do not enhance but rather detract from economic development.

That is why our discussions under this agenda item are so important.

Commitments to fair taxation and fair support for vital services throughout the country are crucial to our nation's future development, social as well as economic.

FINANCING HEALTH AND POST-SECONDARY EDUCATION

Background: Increasing Needs

Canadians are justifiably proud of our health care system. Provided largely as a public service, it is universally available and of the highest quality. Moreover, it is an efficient system providing these high quality services at a reasonable cost.

In 1966, when Medicare began, Canada and the United States both allocated about 6% of their GNP to health care. By 1981, the U.S. cost had risen to 10% of GNP while the Canadian figure was a much more modest 8%. We provide better service to proportionately more people and we do it more efficiently.

But, as our Health Ministers are painfully aware, there are growing demands for quality health care and new strains will be placed on the system over the next decade and beyond. An ageing population with greater health care needs, new health care technologies, environmental factors, and other considerations will all affect health costs.

Citing similar factors, the Conference Board recently estimated that by 1990, fully 12% of GNP in the United States would be devoted to health care—an increase of two percentage points over the decade of the 1980s.

In short, all the evidence confirms that meeting the health care requirements of Canadians will require a larger share of our GNP.

Clearly, the current arrangement, which virtually freezes federal support in relation to GNP, is inadequate to meet these needs.

Post-secondary education requirements are also increasing. We are facing new and increasing demands for improved education and increased skills for our sons and daughters who want to compete in an increasingly complex world. We are also facing more demands for retraining and new skills for adults. **We believe higher education is one of our best investments in the future.**

Future Financing Requirements for Health and Post-Secondary Education

What will it take to maintain Medicare in the face of growing health needs and to meet the challenges in post-secondary education?

A federal commitment to pay at least 50% of program costs was crucial in building our excellent health care and higher education programs, and we believe it is crucial to their future.

Prime Minister, I am pleased to note that you commented on the importance of an equal federal share on a number of occasions. You also commented on some of the problems with our health care system:

> The problem has arisen because of a unilateral and arbitrary cutback by the federal government to the provinces who are charged with footing the bill.

Your diagnosis of the problem with Medicare was and remains accurate. Federal support for health and higher education has not matched program requirements in the last several years. The federal share has fallen from 50% of total health and post-secondary spending in 1979/80 to 43% in 1984/85, some $2.4 billion short of an equal federal share.

For the future, if we match the United States' projections, resources devoted to health and higher education will have to increase about 2% faster than GNP. The bill nation-wide for health and post-secondary education would rise to about $56 billion by 1990/91 from $34 billion in 1984/85.

In such circumstances, a $2 billion cut in federal support would result in a $8.7 billion shortfall in the federal share (from 50/50) by 1990. The federal share would continue to drop, from 43% in 1984/85 to under 35% by 1990/91.

The federal Finance objective to reduce federal program expenditure to a smaller proportion of GNP by 1990 than at any time since 1961 would seriously threaten these and other vital programs. In 1961, there was no Medicare system; there was a much smaller and less utilized higher education system, and also fewer public services.

To cut support for health and education (proportionately with other federal programs) to a smaller share of our GNP by 1990—despite needs increasing faster than the economy—would place the future of these important services needlessly at risk.

Medicare or Private Care?

We have a choice concerning the future development of health care in Canada. By plan or by inaction we can move away from a universal Medicare system to a two-tier system—a public system so underfunded that it can meet only some of the health care needs of Canadians, and a second private system responsive only to the additional needs of those who can afford to pay.

In Canada, we need not and must not allow that to happen. We must not return to the kind of health care which characterized pre-Medicare days in Canada, which often led to financial hardship for the entire family of those who became seriously ill, and which led many Canadians to forego visits to doctors and medical treatment because they could not afford the fees.

In the face of a declining federal share, I believe provinces would continue to attempt to carry the extra burden either through increased taxes or

through deficits. However, the poorer provinces would soon find that the required tax levels were undercutting their competitive positions in relation to richer provinces. There would be irresistible pressure to lower program standards, comprehensiveness and accessibility. Universal and comprehensive Medicare would be threatened.

Prime Minister, ordinary Canadians have been encouraged by your promise to preserve social programs, including Medicare as part of the "sacred trust." They have been encouraged by your early recognition that the former federal government had "reneged" on its commitments to the funding of health and post-secondary education. And, they have been encouraged by your promise to return to the "founding principle" of 50/50 cost-sharing.

That is what we believe is required to secure the future of these services.

As you have noted in the past, to ensure universal access to Medicare:

> The answer is clearly, in the circumstances, more money to maintain the services. And it's a question of where your priorities are.

Over the coming year, we should direct our Ministers—of Health and higher Education, as well as Finance—to consider the options and consequences of various proposals for funding health and post-secondary education programs in the future. We must assess the needs and requirements collectively. Then, we must work together to ensure those needs are met. During that year, the current five-year arrangements for financing health and higher education must be kept in place with no further cuts. We need genuine consultation and negotiation—not precipitous, unilateral action.

EQUALIZATION

Equalization has often been described as the "glue" that holds our country together. Its purpose, as defined in our Constitution, is to ensure:

> that provincial governments have sufficient revenues to provide reasonably comparable public services at reasonably comparable levels of taxation.

Thus, equalization has a direct and important impact on the lives of Canadians in all provinces, on the services they receive—including the provincial responsibility for health and education—on the taxes they pay, and on their opportunities for social and economic development.

Manitoba's experience with the 1982 equalization formula imposed by the federal government is well known. Independent observers, such as Professor Thomas Courchene, of the Ontario Economic Council, former federal Finance Deputy Mickey Cohen, and the Macdonald Royal Commission, have concluded Manitoba was "hardest hit."

Our Government, as I am sure was the case for other provinces, appreciated the federal action earlier this year to redress, at least partially, the unfair results of the formula. But further action is required.

The main problem with the current system is the use of a five-province so-called "representative average" standard. Use of that standard means recipient provinces are left some $1,000 per family (of four) short of the all-province national average standard. Attempting to provide reasonably comparable public services at reasonably comparable tax rates is quite a formidable task with such a large shortfall.

In our view, two principles should guide the review of equalization currently under way by our Finance Ministers.

- Equalization should be calculated in relation to a national average standard.

- There should be no cuts in a province's equalization support unless its entitlement under the chosen formula is decreasing.

An adequate and stable equalization program, reflective of the spirit of the Constitutional amendment on equalization and regional equality, is necessary for the health of Canada and its regions.

TAX REFORM

Prime Minister, a growing number of Canadians are becoming more cynical towards government activity generally and towards the tax system specifically. The present Canadian tax system must bear a large share of the blame.

Ordinary working and middle-income Canadians are paying more than their fair share in taxes.

Banks, oil companies and wealthy Canadians, on the other hand, receive even more in tax breaks (both legislated and informally), in bail outs, in subsidies, and in grants and incentives.

Moreover, the most frequent response to concern over deficits—which include the costs of these preferences for the wealthy—is program or service cuts that are harmful to large groups of Canadians. Now there is also a real danger that emerging challenges and responsibilities—particularly in health care, education and youth employment—will not receive the required commitment and attention.

The Auditor General has estimated that tax expenditure made by the federal government is delivering between $35 billion and $50 billion in preferences, exemptions and incentives annually. Those are large sums in relation to the federal deficit. It should not be surprising that tax avoidance has been called a major growth industry, particularly for large corporations and the wealthy.

At a time when Parliament is considering legislation to cut family benefits, and the Nielsen Task Force is conducting intensive reassessments of

public programs, surely that "hidden" budget of up to $50 billion should be subjected to equally serious review and scrutiny. Minimum tax provisions, which deal with a few hundred million of the $50 billion, are at best interim measures pending comprehensive tax reform. Manitoba was the only government to raise tax reform as an issue last February. Hopefully, the idea will have broader support at this Conference.

Unfortunately, the income tax measures introduced in the last federal Budget were a major step in the wrong direction. They increased taxes for the vast majority of Manitobans—and Canadians. But, the $500,000 capital gains exemption and $15,500 RRSP contribution limits provide much larger tax benefits for a very small, very wealthy group of taxfilers.

Was there any consideration of the costs of these measures on a list of priorities alongside health program needs for example?

Recent reports suggest that drafting the legislation for the capital gains tax exemption is proving extraordinarily complex, and that preventing significant abuses will be extremely difficult, if not impossible. I earnestly hope its costs will not exceed initial estimates significantly as was the case for the Scientific Research Tax Credit. If, as many commentators are suggesting, the measure proves to be much more expensive than anticipated, and largely ineffective in leveraging new, productive investment—will it be terminated?

We share the federal desire for better economic performance and efficiency. We do not believe, however, that these objectives can be achieved through more inequity—through more carrots for the rich and higher taxes for the poor.

In our view, a fair tax system would be a positive force in our economic development. It would help improve confidence, security and a sense that all Canadians are pulling together. It would help restore fiscal flexibility. And it would help secure for future Canadians vital public services, including health care.

In 1966, the Report of the Royal Commission on Taxation, established by the Right Honourable John George Diefenbaker, was presented. I would like to quote the Commission's conclusion on the purpose of the tax system.

> The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed.

Our Government believes this assessment to be as true now as it was 20 years ago. A commitment to fairness—both in taxation and spending—will go much farther in assuring economic vitality than more tax gimmicks for high-income individuals and large corporations.

Honourable Vic Schroeder
Manitoba Minister of Finance

FINANCING HEALTH AND HIGHER EDUCATION

Notes for a Statement to the Conference of Finance Ministers

Toronto, Ontario, December 13, 1985

Mr. Chairman:

Manitoba presented a comprehensive report on the financing of health care and higher education at the recent First Ministers' Conference.

The report included a comparison of the costs of health and higher education throughout the ten provinces with the entire federal contribution under the Established Programs Financing Arrangements.

I would like to acknowledge the extensive work by Ontario officials and the co-operation of all provinces in submitting detailed information to Ontario which made the comparison possible.

Our Government found the results of that analysis to be quite disturbing. The report confirmed that **federal EPF support has fallen dramatically as a proportion of health and higher education costs, from a 50% federal share in 1979/80 to 43% in 1984/85.**

The Prime Minister also found the results of this analysis to be disconcerting. He referred the matter of the federal share to this meeting of Finance Ministers with a view to ensuring that the comparisons were based on uniform and consistent program definitions over time.

The Prime Minister recognized the importance of an assessment of the costs of providing health care and higher education services to Canadians in judging the adequacy and appropriateness of the current EPF arrangements. I hope we will have an opportunity to consider how best to report back to the Prime Minister and First Ministers in that regard.

Interestingly, his comments in New Glasgow on August 17, 1983, appear to have been based on a similar assessment of program costs and federal contributions. I quote:

> When a program starts out at 50/50 and five years later it's 60/40 with the provinces paying the greater share, there has obviously been a change in the rules....A Conservative Government would cover a portion of the shortfall provincial governments are experiencing in meeting rising health care costs.

The 40% share of health costs cited by Mr. Mulroney at that time is consistent with the information included in the provincial material presented at the First Ministers' Conference.

I understand from discussions last week that there is agreement among federal and provincial officials regarding the consistency and uniformity of the health care and higher education definitions used in the shares calculations. Of course, that is no surprise since the definitions themselves were the product of extensive work by federal and provincial Finance officials back in 1980 and 1981.

The joint report from officials in 1982 stated that the series is "complete" and "does provide a reasonable and consistent basis for comparison as between provinces and over time" for health care and post-secondary education expenditures. Accordingly, I believe we can assure the Prime Minister that comparisons based on an apples-and-apples approach confirm that the federal share has indeed dropped from 50% in 1979/80 to 43% in 1984/85.

I know some interest has also been expressed as to how the federal share stacked up in 1976/77, immediately prior to EPF. Although that is not directly relevant to the deteriorating federal commitment under EPF, I am advised that the federal share on a similar apples-and-apples basis was over 48%, including the former shared-cost receipts and the revenue guarantee which was rolled into EPF in 1977.

Our Government recognizes that the federal contribution over the last five years adds up to an impressive total—at least on the surface—some $62.6 billion during the five years ending in 1984/85. However, this impression changes markedly once the costs of health and higher education services are considered. These costs totalled some $141 billion over the same five-year period. Thus, the federal share of health and higher education costs averaged about 45% over this period and fell some $8 billion short of a 50% federal share.

All these calculations are on the same comprehensive basis (apples-and-apples, if you will). They lead to the inescapable conclusion that, despite significant and early cost-containment measures by provinces, the federal share of health and post-secondary education requirements has dropped sharply. In 1983, Mr. Mulroney recognized the situation, its causes and the need for additional federal support.

So much for the past. For our Government, and for Canadians concerned about the preservation of quality health care and educational opportunities in the future, the more important matter is where we go from here.

Federal estimates suggest EPF contributions for health care and higher education will total about $97 billion over the five years ending 1990/91 under the current formula. Again, that is an impressive figure. But, if Canada parallels U.S. forecasts, health and higher education costs will increase faster than GNP and total some $240 billion over the same period, and the federal share would actually decline. That is without any further cuts in federal support.

Clearly, the current Established Programs Financing funding formula which virtually freezes federal support in relation to GNP would not be capable of meeting program and service requirements in such circumstances. Moreover, **if the federal government proceeds with the $2 billion cut currently threatened for 1990/91, the federal share would continue to decline from 43% in 1984/85 to 35% by 1990. The shortfall in the federal share from 50/50 funding would be over $8 billion in that year.**

Yet another perspective on the federal proposal emerges from an examination of EPF cash payments, the amounts actually reflected in the federal Budget. These payments are estimated at $9.8 billion for 1986/87 and scheduled to rise to $12 billion by 1990/91, reflecting moderate annual growth of just over 5%. But **the proposed $2 billion cut would reduce federal cash support to $10 billion in 1990/91 for an annual growth rate of half of one percent. That is hardly reflective of the priority Canadians attach to quality health care and higher education.**

Provincial Finance Ministers are all acutely aware of the implications of their financing proposals on the viability and effectiveness of various programs. They recognize the differences in priority among programs. And, they have made the difficult decisions on priorities and taxes to maintain these services despite a declining federal share.

Some may argue on the basis of concern about the federal deficit that Ottawa cannot provide adequate resources to meet these needs. I disagree. The fact is these issues are fundamentally matters of priority.

The proposed $2 billion cutback in federal support for health and higher education can be contrasted with:

- the increased tax deductions favouring wealthy Canadians through capital gains and RRSP deductions amounting to more than $2 billion annually by 1990;
- over $2 billion in special tax breaks for Gulf, Dome and Syncrude;
- bank bail outs exceeding $1 billion;
- the ongoing federal refusal to subject the $35 billion to $50 billion in tax expenditure, the so-called "hidden budget," to equally serious review and scrutiny;
- the commitment that corporate income tax rates will be reduced to offset any revenue gain which might arise from the withdrawal of various corporate tax preferences;
- major increases in defence spending;
- $9 billion in benefits and tax breaks to the oil industry over the next five years under the "Western Accords"; and so on.

Money is clearly available. The issue is one of priorities.

From the outset of our discussions, Manitoba has consistently advocated the initiation of a joint co-operative assessment of program needs. These are serious questions and they deserve serious consideration.

The Minister of National Health and Welfare has referred to several of the same sources of strain on health care costs as Premiers did during the First Ministers' Conference. In a November 28th speech in Halifax, he talked about the cost pressures arising from the changing age distribution of the population, the rapidly-rising costs associated with new technological advances and potential costs associated with AIDS. These pressures must be taken into account if we are to assure adequate health care funding.

That is why, at the First Ministers' Conference, Premier Pawley called for early joint meetings of Ministers of Health, higher Education and Finance to consider the options and consequences of various proposals for funding health and post-secondary education programs in the future. I believe that is of critical importance.

I am deeply concerned that in the face of further declines in the federal share, poorer provinces will be unable to sustain the tax levels required to preserve the services without undercutting their competitive positions in relation to richer provinces. This is a more pressing concern since the current equalization formula is inadequate to fulfil its constitutionally-enshrined objective. The result would be irresistible pressure to lower program standards, comprehensiveness and accessibility in order to contain costs. Ultimately, Medicare, as we know it, would be seriously threatened.

That is why our Government favours a return to the approximate 50% federal share which prevailed under EPF in 1979/80. We believe **a target of a 50% federal share should be reconfirmed as a national objective** as the Prime Minister indicated while in Opposition.

Summary

Based on uniform and consistent program definitions, the federal share of health and higher education costs has fallen dramatically over the last several years.

Available forecasts suggest that health and higher education requirements will continue to grow in relation to GNP over the next several years.

To preserve the services for future Canadians requires sustained and adequate federal support on an equitable basis, and not more cutbacks.

To that end, a joint meeting of Health, Education and Finance Ministers to review requirements and priorities should be held early in the new year.

In a sense, the debate about health and post-secondary education funding has been "putting the cart before the horse."

- First, as a group of 11 governments, we must have a clear picture of what Canadians—families and individuals—will need in terms of health and post-secondary education. All of us—through our Health Ministers and our constituents—have seen evidence of growing pressures on our health care systems. We all know of people waiting too long in emergency units, people waiting too long for surgery, and so on. What are the physical requirements facilities and staff—that will ensure adequate services by 1990?

- Second, we must determine what delivering these services will cost. Comparisons of funding to projected GNP, to projected CPI, are reflections of both opportunities and constraints on governments—not of human requirements.

The real question is: what priority will Canadians place on fulfilling health care and higher education needs between now and 1990? After resolving this issue, we can settle the question of how we should structure funding. If we agree on the first questions, we should be able to negotiate financing arrangements.

In the interim, pending the outcome of that meeting, the federal government should refrain from further premature and unilateral cuts in federal support.

Honourable Howard Pawley
Premier of Manitoba

TAX REFORM

Excerpts from an Address to the 1985 Premiers' Conference

St. Johns, Newfoundland, August 20-22, 1985

At last year's Premiers' Conference in Charlottetown, and again at the First Ministers' Conference in Regina, Manitoba stood alone in raising the tax reform issue. I am pleased to note that since then Saskatchewan has joined us in pushing for national tax reform and, **at Grande Prairie in May, all four Western Provinces endorsed a communiqué calling for national tax reform.**

The case for reform is strong. It arises from the myriad of incentives, preferential provisions and loopholes now contained in our tax system. The magnitude of the abuses is such that numerous wealthy Canadians and profitable corporations are able to avoid paying any taxes, and growing numbers of Canadians believe the system is unfair.

In 1962, the then Prime Minister, the Right Honourable John Diefenbaker, established a Royal Commission, chaired by Mr. Kenneth Carter to study Canada's system of taxation. The 1966 Report of the Commission described the objectives of a nation's tax system:

> The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed.

It has become increasingly apparent that, by these standards, Canada's income tax system is failing miserably.

Income taxes have become increasingly unfair and inequitable. **Our Government has always endorsed the position of the Carter Commission that taxes should reflect ability to pay.** As the Commission expressed it:

> All resident individuals and families should pay taxes on a base that measures the value of the annual net gain or loss in the unit's power, whether exercised or not, to consume goods and services. Such a base would ignore the form of the gain or what was done to obtain the gain. We call this the comprehensive tax base.

In fact, this principle, often referred to as "a buck is a buck," is grossly violated in the present system. In 1983, for example, over 85% of labour income was assessed for tax purposes. In contrast, less than 45% of investment income

entered the tax base in that year. **Clearly, ordinary working Canadians are paying more than their fair share.**

The income tax system has not generated the revenue required to finance essential public services. Programs for ordinary Canadians have been slashed, and taxes which are not related to income have been steadily increased. As a result, lower- and moderate-income Canadians, both working and retired, have been confronted with:

- an increasingly inequitable share of income taxes;
- increasing reliance on taxes that are inherently less progressive than the personal income tax; and
- cuts in important public services.

The serious nature of the problem was underscored earlier this year when, despite an improving economic situation, Ottawa adjusted its estimates of the yield of personal income taxes down significantly, raising uncertainty about the ability of the income tax system to raise revenue.

More recently, **federal analysis has confirmed the connection between declining income tax revenue productivity and the deficits facing governments throughout Canada.** I quote:

> (The) drop in the rate of growth of personal income tax revenues has been a major concern and is one of the primary reasons underlying the rapid increase in the federal government's deficit over these two years (1983 and 1984).

Clearly, if senior governments do not act on tax reform, even greater pressure will be placed on public programs and services.

In our view, the tax package contained in the May federal Budget represents a significant step in the wrong direction. Certainly, it cannot be regarded as a reasonable approach toward meaningful tax reform.

On the personal side, major tax cuts are provided for the wealthy through the one-half million dollar capital gains exemption, and the increases in tax deductible pension contributions for higher-income earners. Clearly, these cuts, entailing a cost of $2.3 billion annually by 1990/91, for the more fortunate, are not helping to reduce the federal deficit, nor are they helping secure the resources needed for important public services.

On the corporate side, the Budget proposed new measures to permit transfers of tax losses, largely unused tax incentives and deductions, within corporate groups. The proposal will result in significant revenue losses federally ($400 million annually) and unspecified losses provincially.

In a separate discussion paper on corporate income tax, the federal government identified major tax preferences which should be examined in the

interests of providing a more fair and rational corporate income tax base. These included accelerated capital cost allowances in excess of actual depreciation, preferential tax rates, resource write-offs, the investment tax credits, and the inventory valuation allowance.

Our Government fully supports a comprehensive review of the corporate income tax base. Moreover, in our view, it is important that this review be completed and the existing corporate tax system cleaned up before considering any broadening of the transferability of unused tax deductions and preferences among corporations.

Our Government has long felt than an objective review of the corporate tax system would confirm that many preferences have either outlived their usefulness or are not effective. In our view, those provisions should simply be rescinded with the bulk of the resulting revenue used to help provide a more secure base for important public services and to increase federal fiscal flexibility.

It was therefore particularly disturbing to hear the federal government suggest that rationalization of the corporate tax base not be used to help protect vital public services in Canada, not be used to help reduce taxes on ordinary Canadians, and not be used to help reduce deficits. Instead, the federal Minister of Finance has suggested that any rationalization of the corporate tax base be accompanied by offsetting general federal corporate rate reductions with a view to ensuring that the overall effect of changes is "revenue-neutral."

Our Government does not believe that suggestion to be appropriate or fair, particularly at a time when the federal government, on the basis of concern over its own fiscal flexibility, proposed cuts in old age pensions, cuts in social and economic programming, and cuts in its support for health, education and equalization throughout the country.

I ask all Premiers to join in urging the federal government to undertake a broadly-based intensive National Tax Reform Conference. Such a Conference, which should include not only provincial governments, but also Canadians from all walks of life, would be the first step toward a truly meaningful consultation process.

The costs of allowing tax policy to be formulated in the bowels of federal Finance, accessible only to corporate tax planners, are obvious. Clearly, the time has come to open this important function of government to all Canadians.

Honourable Vic Schroeder
Manitoba Minister of Finance

Notes for a Statement on TAXATION ISSUES at the Federal-Provincial Conference of Finance Ministers and Provincial Treasurers

Halifax, Nova Scotia, September 26-27, 1985

INTRODUCTION: TAX REFORM

During the last several years, Manitoba has consistently pressed the point that a comprehensive review and reform of the Canadian tax system—and particularly the income tax system—is long overdue. Several observations underline the urgency of moving forward decisively on this matter:

- A significant majority of Canadians no longer believe the tax system is fair. I might add that their scepticism—even cynicism—goes beyond Revenue Canada's collection practices, or some cases of high-income individuals' escaping income taxation entirely. Many Canadians believe—with good reason I might add—that the Canadian tax system—both in design and administration—favours the wealthy at the expense of working people.

- We are faced with more than simply a "perceptional" problem. A paper recently distributed by the federal Finance Department showed that **in 1983, over 85% of labour income was assessed for tax purposes, while less than 45% of investment income entered the tax base. Ordinary working Canadians are paying more than their fair share** and they know it.

- The income tax system has failed to provide adequate resources for essential public services, leading to increased use of less progressive taxes, and proposals for cuts in vital programs like old age pensions.

- Governments must act on tax reform to prevent further unfair pressure on public programs and services affecting ordinary Canadians.

CORPORATE INCOME TAX REFORM AND CORPORATE LOSS TRANSFERS

The May federal Budget included a discussion paper which examined the effects of several major tax preferences and incentives on corporate income taxes in various sectors of the economy. Manitoba shares the concern that **the myriad of special rules and preferences have not succeeded in furthering our country's economic objectives.** Our Government also concurs—for the most part—with the federal government's objectives as set out in the discussion paper.

However, we are disturbed by the suggestion that the rationalization of the corporate tax base would *not* be used to *help protect vital public services* in Canada, *not* be used to *help reduce taxes on ordinary Canadians*, and *not* be used to *help reduce deficits*. Instead, the Budget suggests that any rationalization of the corporate tax base be accompanied by offsetting general federal corporate rate reductions with a view to ensuring that the overall effect of corporate tax changes is "revenue-neutral."

We are therefore deeply concerned that the proposals to permit the transfer of tax losses and unused deductions within corporate groups are viewed as separate, and apparently higher priority issues. Federal estimates suggest that these proposals will reduce federal revenue by $300 million to $400 million annually. Will that cost be added to the deficit? Will it be added to the taxes of other Canadians? Or will it be used as an excuse to cut other programs or services?

The proposed system of tax losses and unused deduction transfers is of major concern in its own right.

- **In our view, the taxpaying unit should be either the individual corporation or the corporate group.** The present proposal to allow corporations to transfer unused losses and incentives at their option, basically gives corporations "the best of both worlds" from a tax minimization perspective. The proposal simply provides too many opportunities for corporations to avoid paying taxes.

- The existing system of incentives, preferences, and deductions which gives rise to most of the so-called "losses" should be cleaned up before any consideration is given to facilitating transfers within corporate groups.

- The proposals to facilitate such transfers within corporate groups seem at odds with the new restrictions on income splitting among family members.

- Satisfactory mechanisms to offset the impact of loss transfers among provinces have yet to be developed.

MINIMUM PERSONAL INCOME TAX

Our Government continues to believe that a minimum tax should be seen only as a temporary stop gap measure and not as a substitute for comprehensive

tax reform. In that sense, there is at least an equal need for a minimum tax on the corporate side.

The minimum tax itself should apply on the broadest possible base. Specifically, it should endeavour to capture those elements of income which are presently escaping the tax base. **Our tax system does not require a new surcharge on labour income.**

In this regard, we welcome the tax expenditure account which was recently released by the federal Finance Department. The account is an important first requirement in an intensive scrutiny of the Canadian tax structure. Our Government also welcomed the recommendation of the Macdonald Commission to establish a Federal-Provincial Tax Structure Committee which would review, evaluate and set out the basic features of the tax system within a regular five-year cycle. I would be interested in hearing the federal government's thoughts on such a proposal.

VALUE-ADDED TAXATION

A value-added tax for Canada carries a number of potentially attractive advantages over the present "system" of commodity taxation. However, there are a number of important questions and issues which must be addressed before implementing such a system could be considered:

- **The income redistributional characteristics of any VAT proposal must be taken into account.** Our primary concern is that lower- and middle-income Canadians not be faced with higher uncompensated tax burdens.

- The regional redistribution of commodity tax burdens must be closely examined. Industries and consumers in relatively poorer provinces should not be expected to carry a larger share of the total tax burden. **Of course, there may well be fairly simple mechanisms by which any regional inequities created by moving to a VAT could be neutralized.**

I should also add that while our Government favours the rationalization of commodity or sales taxation in Canada, we do not believe a VAT—with or without provincial participation—should be regarded as the major source of new revenue. In other words, value-added taxation cannot and should not be viewed as a substitute for income tax reform.

CONCLUSION

Essentially, Manitoba's paramount concern is that the discussion of taxation policy should not become mired in myopic debates of narrowly-defined issues. Our collective goal should be to move toward an overall tax structure which Canadians in general will recognize as fair and equitable and capable of raising sufficient revenue to sustain important public services.